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Exhibit 450A



HDMA

Board of Directors Meeting

June 1, 2014

**JW Marriott Desert Ridge
Phoenix, AZ**



HDMA BOARD OF DIRECTORS MEETING

June 1, 2014

CONFIDENTIAL

The material in this workbook concerns the official business of HDMA and is for the confidential use of HDMA officers and directors only.

AGENDA
HDMA Board of Directors Meeting
JW Marriott Desert Ridge
Wildflower Ballroom A-C
Phoenix, Arizona
June 1, 2014
12:30 pm – 5:00 pm

12:30 pm **Lunch Served**

1:00 pm **Meeting Convenes**

Welcome and Introductions – new Board member
Approval of Prior Meeting Minutes
Anti-Trust Policy Review
Legal Issues Report

Dave Neu/
John Gray/
Rick Frank

A. Financial and Governance Matters

1. 2013 Audit Report
2. April 2014 Financial Statements
3. Board Code of Ethics and Business Conduct
4. Investment Advisory Committee Report

Mike Kaufmann
Ann Bittman

Ted Scherr

B. Membership Update

Perry Fri

C. Meetings, Conferences & Education Programs

1. Business & Leadership Conference (BLC)
2. Annual Board & Membership Meeting (ABMM)
3. Educational seminars
4. Distribution Management Conference (DMC)
5. International Pharmaceutical Distribution Conference (IPDC)

Perry Fri/
Brooke Naylor

D. Center for Healthcare Supply Chain Research

Karen Ribler

E. HDMA PAC Presentation

Patrick Kelly

F. IMS DEA Data Solution

Hossam Sadek, IMS

BREAK

G. Discussion Issues

1. Pedigree/Traceability Implementation
2. Drug Abuse and Diversion
3. LIFO
4. State Affairs

Perry Fri/
Patrick Kelly/
Anita Ducca

H. Dashboard Review (*Approval Required*)

Perry Fri/Patrick Kelly

I. Executive Committee Budget Breakout Group Reports

1. Domestic Revenue/Business Development
2. International Revenue/Business Development
3. Expenses

Dave Neu/John Gray

5:00 pm **Meeting Adjourns**



MEMORANDUM

TO: HDMA Board of Directors

FR: Ann Bittman, Corporate Secretary

DATE: May 21, 2014

RE: **New HDMA Board Member**

We welcome the following new member to HDMA's Board of Directors:

Timothy Booth
President/COO
Metro Medical Supply, Inc.

**HEALTHCARE DISTRIBUTION MANAGEMENT
ASSOCIATION
(HDMA)**

**ANNUAL MEMBERSHIP MEETING
AND
BOARD OF DIRECTORS MEETING**

**The Greenbrier
White Sulphur Springs, West Virginia**

September 30, 2013

**Minutes of the
HDMA Annual Membership Meeting
and
HDMA Board of Directors Meeting**

**The Greenbrier
White Sulphur Springs, West Virginia**

September 30, 2013

ATTENDEES

HDMA Board Members Present:

David Neu (Chair)	Senior Vice President and President, AmerisourceBergen Drug Corp.
Ted Scherr (Vice Chair)	President / CEO, Dakota Drug
Dawn Boyter	Chief Executive Officer, Richie Pharmacal Company, Inc.
Maria Burns	Vice President, Burlington Drug Company, Inc.
Ken Couch	President, Smith Drug Company, Div. J M Smith Corporation
Gregory Drew	President, Value Drug Company
Scott Franklin	President, Top Rx
John Gray	President and CEO, HDMA
Terrance Haas	Chief Executive Officer, Harvard Drug Group
Gayle Johnston	President, CuraScript SD Specialty Distribution, an Express Scripts Company
Mike Kaufmann	CEO, Pharmaceutical Segment, Cardinal Health, Inc.
David Moody	CEO, Mutual Wholesale Drug Company
Al Paonessa	President, Anda, Inc.
Anthony Rattini	President & CEO, Miami Luken
G.K. Richards	President, Capital Wholesale Drug
Lenny Rodriguez	Chief Executive Officer, Attain Med
Dale Smith	Chairman and CEO, H.D. Smith
Mary Tim Smith	Chief Financial Officer, R&S Northeast LLC
Mark Walchirk	President, U.S. Pharmaceutical, McKesson Corporation

HDMA Board Members Absent:

Louis Ferraro	Vice President & General Manager, Merchandising and Product Management, Henry Schein, Inc.
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Richard Gatton	President, BDI Pharma, Inc.
Samuel Lazich	President, DMS Pharmaceutical Group, Inc.
Raul Rodriguez-Font	President, Drogueria Betances
Christopher Schoen	Vice President, Prescription Supply, Inc.
Walter Shikany	President, Health Coalition, Inc.
Nicholas Smock	President, CEO, PBA Health
Todd Szewc	Vice President, Administration & CFO, KeySource Medical, Inc.
Albert Thomas	Associate Vice President & General Manager, VaxServe, a sanofi pasteur company

HDMA Staff Present:

Ann Bittman	Executive Vice President & COO
Anita Ducca	Vice President, Regulatory Affairs
Perry Fri	Sr. Vice President, Industry Relations, Membership & Education
Elizabeth Gallenagh	Vice President, Government Affairs and General Counsel
Patrick Kelly	Sr. Vice President, Government Affairs
Brooke Naylor	Vice President, Meetings & Conferences
John Parker	Vice President, Communications
Ted Pezzullo	Vice President, Information Technology and Facilities
Karen Ribler	Executive Vice President & COO, Center for Healthcare Supply Chain Research

Legal Counsel:

Richard Frank, Esq., Olsson Frank Weeda Terman Matz

Guest:

George Koch, Esq., Counsel

PROCEEDINGS

- I. WELCOME AND ADMINISTRATIVE MATTERS.** Chairman Dave Neu (AmerisourceBergen Drug Company) called the meeting to order at 12:00 pm and welcomed all attendees to the Annual Board and Membership Meeting (ABMM).
- A. New Board Members And Introductions (Board Materials, Page 4).** John Gray (HDMA President and CEO) welcomed two new Board members: Mr. Mark

Walchirk (President, U.S. Pharmaceutical, McKesson Corporation) and Ms. Mary Tim Smith (Chief Financial Officer, R&S Northeast LLC).

Self-introductions followed.

- B. **Antitrust Policy Review (Board Materials, Page 5).** Counsel Richard L. Frank (OFW Law, HDMA outside counsel) reminded the Board of HDMA's unqualified policy of strict compliance with both federal and state antitrust laws. He noted that the agenda and background materials had been reviewed in advance and raised no competitive concerns. He stated that he will monitor the meeting and, if necessary and appropriate, interrupt proceedings if topics or conversations raised concerns regarding antitrust compliance.
- C. **Approval of Prior Meetings Minutes (Board Materials, Page 8).** Mr. Gray drew the Board's attention to the minutes of the June 2, 2013 meeting in Orlando, Florida.

Action: On motion duly made and seconded, the minutes of June 2, 2013 Annual Board meeting were approved.

D. **Legal Issues Update.**

1. **HHS Medical Privacy Regulations** – On September 19, 2013, HHS issued Guidance designed to address concerns with regard to the regulation of sponsored refill reminder communications. The Guidance clarifies that covered entities (pharmacies) can use business associates to carry out these plans. The business associate can be compensated at "fair market value." The covered entity can be compensated by the sponsor for a "reasonable amount" which is defined as "direct and indirect costs related to the refill reminder or medication program, including labor, materials, and supplies as well as capital and overhead costs." Mr. Frank also noted that a lawsuit had been filed in federal District Court challenging the new HHS privacy regulation on First Amendment grounds. *Adheris, Inc. v. Kathleen Sebelius, et al.*, No. 1:13-cv-01342 (D.D.C. filed Sept. 5, 2013).

Following discussion, Mr. Frank was asked to develop and circulate a memorandum to Association members summarizing the current status of the sponsored refill reminder regulation and Guidance.

2. **U.S., et al., ex. Rel. Streck v. Allergan, Inc., et al.**, Civ. No. 08-5133 (E.D. Pa). – The Judge in the "whistleblower" lawsuit rejected plaintiff's motion to enter a final order dismissing the service fee defendants. The case will move forward

as to the remaining discount defendants with no appeal allowable until final judgment is issued on both classes of defendants.

3. Preemption of State and Local Stewardship and Disposal Laws – OFW Law issued an informal opinion concluding that DEA’s proposed disposal and take-back rule will not effectively preempt state and local disposal and stewardship laws. The Controlled Substances Act (CSA) currently has a fairly well-accepted anti-preemption “savings” provision.
4. Drug Enforcement Administration (DEA) Matters and Litigation – There were no new significant developments involving DEA investigations or litigation.

II. **ANNUAL MEMBERSHIP MEETING CONVENED.** Chairman Dave Neu convened the Annual Meeting of Members, pursuant to proper notice. Counsel Frank confirmed that a quorum was present.

- A. **Election of Officers.** President Gray presented the slate of officers nominated by the Executive Committee for consideration by the Full Membership:

Mr. Dave Neu, Chairman
Mr. Ted Scherr, Vice Chairman

Action: On motion duly made and seconded, the slate of officers was approved unanimously.

President Gray congratulated Messrs. Neu and Scherr on their election to a second term.

There being no further business, the Annual Meeting was adjourned.

III. **DISCUSSION ISSUES (Board Materials, Tab B).**

- A. **Pedigree/Traceability.** Ms. Liz Gallenagh (HDMA Vice President, Government Affairs and General Counsel) announced that HDMA’s 10-year effort to obtain a nationally uniform pedigree/traceability law is close to realization. H.R. 3204 passed the U.S. House of Representatives and a floor vote is expected in the Senate as soon as the budget/debt ceiling issues are resolved. The legislation carries an effective date of January 1, 2015 and would preempt state and local pedigree laws which differ, including the current law in California. Over the 10-year implementation period, the law would include licensure, serialization, lot tracing with unit level tracing requirements beginning at year 10. The Food and Drug Administration would be required to adopt implementing regulations. Ms.

Gallenagh distributed summary information regarding the new law – the Drug Quality and Security Act of 2013 (H.R. 3204).

- B. **Controlled Substance Abuse and Diversion.** Mr. Patrick Kelly (HDMA Senior Vice President, Government Affairs) provided an update on legislative and regulatory activities concerning controlled substance abuse and diversion. The CSA Task Force has developed a “Guiding Principles” document. Legislation being developed in the House by Representatives Tom Marino (R-PA) and Marsha Blackburn (R-TN) addresses/advances HDMA interests. The legislation would define “imminent danger” and allow a corrective action plan as an intermediate step before a DEA license suspension is considered. HDMA members continue to have difficulty with DEA inspections/audits due, in large part, to not knowing what is required of the distributor to address “suspicious orders.” Mr. Kelly also reported that Senator Joe Manchin (D-WV) continues to push S. 621 which calls for the rescheduling of hydrocodone combination products. In consideration of concerns raised by HDMA, the legislation would call for a three to five-year phase-in.

Ms. Anita Ducca (HDMA Vice President, Regulatory Affairs) reported that HDMA has submitted a list of questions to DEA seeking to gain a better understanding of what DEA requires of distributors. A meeting originally scheduled for July 31 with DEA officials was cancelled by the DEA. DEA has been referring to the industry compliance guidelines on suspicious orders in certain legal documents, resulting in the implication that it is “an industry standard.” Since these guidelines were never intended to constitute a “standard,” they have been taken down from the HDMA website, at the direction of the GPPC.

HDMA commented to DEA on the proposed take-back/disposal rule. The GPPC has recommended that HDMA consider a joint letter from the pharmacy and pharmaceutical associations calling on a coordinated federal effort with regard to the take-back/disposal issue. States and localities are also becoming more active in this area.

Mr. John Parker (HDMA Vice President, Communications) provided an update on the APCO Project designed to better understand the view of government officials, national influencers and the public regarding the distributor’s role in addressing controlled substance abuse/diversion. Mr. Parker circulated the recent ad HDMA took out in *Politico* entitled “1-50-1” designed to brand the Association/industry’s effort to obtain a federal 50-state solution to prescription drug and controlled substance issues. Mr. Parker presented the results of the preliminary opinion surveys conducted by APCO.

Mr. Gray reported that HDMA had several discussions with Rand & Co. regarding an independent assessment of the drug diversion issue. Rand was looking for a preliminary payment of \$500,000 and appeared unwilling to grant HDMA any meaningful role in the study design, rejecting HDMA's suggested changes to the proposed agreement. The Rand study has been put on hold for the time being.

C. **Physician Payments Sunshine Act/Open Payments Act.** Mr. Kelly provided an update on the final CMS regulation applying the Physician Payments Sunshine Act (now called the Open Payments Act) to gifts from distributors to physicians, teaching hospitals, and others. He noted that the final regulations include distributors under CMS's interpretation of the current "applicable manufacturer" definition because they "take title" to the goods. HDMA is working with Senator Chuck Grassley's (R-IA) office seeking, at a minimum, a stay of the compliance date for 12 months. Mr. Kelly was asked to circulate information to the Board regarding the specifics of what triggers a distributor reporting requirement under the Act.

D. **Reimbursement/AMP Rule.** The final AMP rule has been delayed until January 2014. HDMA continues to seek an exemption for prompt pay discounts from the Medicare Part B rebate.

IV. **DASHBOARD REVIEW (Board Materials, Tab C, Page 57).** Mr. Kelly and Mr. Perry Fri (HDMA Sr. Vice President, Industry Relations, Membership & Education) reviewed the priority issue dashboard and identified changes recommended by staff and approved by the HDMA Councils. Discussion ensued.

Action: On motion duly made and seconded, the updated and amended dashboard was approved.

V. **HDMA PAC (Board Materials, Tab D).** Mr. Kelly provided an update on PAC fundraising and contributions.

VI. **FINANCIAL UPDATE (Board Materials, Tab E).** Ms. Ann Bittman (HDMA Executive Vice President and COO) presented the financial/budget report. Ms. Bittman drew the Board's attention to the 2013 year-to-date financial reports and the proposed 2014 budget.

Total operating revenue through August 31 is \$11.55 million and total operating expenses are \$7.62 million for a current net surplus of \$3.93 million. The projected net deficit at year-end is \$32,000 as compared to a budgeted projected net deficit of \$74,000. Revenue decreases were in the areas of the Business and Leadership Conference, sponsorship, and

interest income. Spending decreases were in the areas of the Business and Leadership Conference, travel/entertainment, depreciation, and marketing. With the anticipated passage of the HDMA supported pedigree (track and trace) legislation, the Track and Trace Seminar should exceed budget expectations and possibly lead to a year-end surplus.

The reserve fund stands at \$12.58 million, which more than meets HDMA's target of maintaining one year's operating expenses (\$11.71 million).

Ms. Bittman previewed the proposed budget which reflects a deficit of \$659,000. Proposed revenue of \$12.43 million is \$754,000 (6.5%) higher than 2013 projected revenue due in large part to revenue of \$730,000 from the first ever Distribution Management Conference International. Anticipated expenses for that event are \$698,000 resulting in a projected \$32,000 net income.

The proposed budget calls for a reduction in dues revenue for both distributors and manufacturers. This is due in large part to acquisitions and consolidation. Operating expenses for 2014 are projected to increase \$1.38 million (11.8%) due to the addition of the DMCI and \$427,000 in payroll and benefit expense increases.

Ms. Bittman reported that the staff was asked to develop options for increasing revenue (expanded membership, increased dues or sponsorships) and for reducing costs. Options will be circulated over the next month with an Executive Committee conference call scheduled in November to review and finalize the budget for 2014.

VII. CENTER FOR HEALTHCARE SUPPLY CHAIN RESEARCH UPDATE (Board Materials, Tab F). Ms. Karen Ribler (Executive Vice President & COO, Center for Healthcare Supply Chain Research) presented an update on Center activities. The CEO Roundtable scheduled for April 1, 2014 has confirmed George Paz, CEO of Express Scripts, as the keynote speaker. A mark your calendar invitation will be sent electronically in October. Other key activities include: research into alternative distribution models and specialty pharmacy; publication of the *HDMA Fact Book* 84th Edition; and *Specialty Pharmaceuticals: Facts, Figures and Trends*.

Ms. Ribler then presented highlights from the Center's most recent research, *Implications of Alternative Distribution Models on Specialty Pharmacy* noting key messages - distribution models have an impact on patient care and primary distribution is valued by specialist providers.

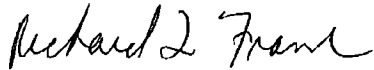
VIII. MEMBERSHIP, CONFERENCES, AND EDUCATIONAL PROGRAMS (Board Materials, Tab G). Mr. Perry Fri discussed Association membership data collection

activities and identified the goal of narrowing the survey to once per year. He discussed upcoming seminars, including the DMC, DMC International and the 2014 ABMM.

- IX. **JOINT SESSION WITH MANUFACTURERS.** Mr. Doug Long (IMS Health) presented a detailed review of trends and issues affecting the pharmaceutical supply chain.

There being no further business, on motion duly made and seconded, the meeting was adjourned.

Prepared by:



Richard L. Frank, Counsel

Date: October 22, 2013

Approved by:



Ann W. Bittman, HDMA Secretary

Date: October 22, 2013



ANTITRUST POLICY

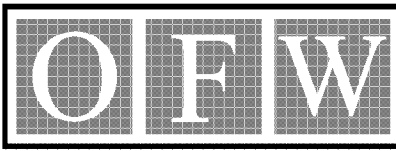
It is the unqualified policy of HDMA and all of its operating committees to conduct their operations in strict compliance with the antitrust laws of the United States.

HDMA's antitrust policy prohibits any discussions which constitute or imply an agreement or understanding concerning: 1) prices, discounts, or terms or conditions of sale; 2) profits, or profit margins or cost data; 3) market shares, sales territories or markets; 4) allocation of customers or territories; 5) selection, rejection or termination of customers or suppliers; 6) restricting the territory or markets in which a company may resell products; 7) restricting the customers to whom a company may sell; or 8) any matter which is inconsistent with the proposition that each member company of HDMA must exercise its independent business judgment in pricing its services or products, dealing with its customers and suppliers and choosing the markets in which it will compete.

HDMA membership, Board of Directors and committee meetings shall be conducted pursuant to agendas distributed in advance to attendees; discussions shall be limited to agenda items which have been reviewed by HDMA legal counsel; there shall be no substantive discussions of HDMA matters other than at official meetings; and minutes shall be distributed to attendees promptly upon review by HDMA legal counsel.

PHILIP C. OLSSON
RICHARD L. FRANK
DAVID F. WEEDA (1948-2001)
DENNIS R. JOHNSON
ARTHUR Y. TSIFEN
STEPHEN D. TERMAN
MARSHALL L. MATZ
MICHAEL J. O'FLAHERTY
DAVID L. DURKIN
NEIL F. O'FLAHERTY
BRETT T. SCHWEMER
TISH E. PAHL
ROBERT A. HAHN
EVAN P. PHELPS
GARY H. BAISE
FREDERICK H. BRANDING*
BRUCE A. SILVERGLADE
JOLYDA O. SWAIM
JONATHAN M. WEINRIEB
STEWART D. FRIED

*PRACTICE WITHIN THE DISTRICT OF COLUMBIA
IS LIMITED TO MATTERS AND PROCEEDINGS
BEFORE FEDERAL COURTS AND AGENCIES



— L A W —
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MEMORANDUM

May 22, 2014

**PRIVILEGED AND CONFIDENTIAL
ATTORNEY CLIENT COMMUNICATION**

BY ELECTRONIC MAIL

TO: John Gray, Esq.
President and CEO
Ann Bittman
Executive Vice President and COO
Health Distribution Management Association

FROM: Olsson Frank Weeda Terman Matz PC

RE: Legal Issues Update For May 2014

New Legal And Regulatory Activity Since February 2014

1. Implementation Of The Drug Supply Chain Security Act (DSCSA), Title II Of The Drug Quality and Security Act (DQSA)

As previously reported, President Obama signed H.R. 3204, the DQSA, on November 18, 2013. Over the next ten years, the Food and Drug Administration (FDA) will be implementing a complex regulatory scheme that will ultimately enable the exchange of transaction information, histories and statements for human prescription drug products as part of a uniform national traceability framework. FDA has begun rulemaking and guidance development to implement the DSCSA and meet congressionally-imposed deadlines. Since February, HDMA staff, supported by members and outside counsel, have, among other things: submitted a letter to FDA on suspect and illegitimate product guidance development; submitted comments to FDA on the development of standards for the interoperable exchange of information for tracing of

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SALLY S. DONNER
BARBARA J. MASTERS, D.V.M.
WILLIAM G. IMBERGAMO
GARY M. ZIZKA

Memorandum to John Gray and Ann Bittman
May 22, 2014
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prescription drugs; developed a matrix and schematics showing the data elements that must be exchanged between trading partners in various product transaction scenarios; received advice on traceability issues in transactions involving exclusive distributors and repackagers; received advice on the legal standards applicable to third party licensure inspections; and begun work on development of FDA standards for wholesale distributor licensure and submission of state licensure information to FDA.

2. United States Pharmacopeia (USP)

The USP issued a new, general draft General Chapter regarding “Good Distribution Practices,” which includes draft chapters on distribution practices, environmental controls, quality systems, and supply chain integrity and security. HDMA staff, members, and outside counsel have serious concerns about the propriety of USP’s issuance of these new chapters given the ongoing implementation of the DSCSA, which USP has ignored. If the USP chapters are finalized and adopted by reference in FDA or state regulations, they could significantly impact member operations. HDMA staff is working with outside counsel and members to comment upon the draft chapter.

3. *U.S. ex rel. Streck v. Allergan, Inc., et al.*

In 2008, Ronald J. Streck filed a “whistleblower” lawsuit under seal in federal district court alleging that 30 drug companies violated federal and state false claims acts by manipulating price data to reduce the amounts they owed federal and state governments under the Medicaid Program. The suit seeks reimbursement for the federal and state governments, as well as a “whistleblower” fee for the Relator, Mr. Streck, and his attorneys. The only part of the case that remains in active litigation involves allegations that four pharmaceutical companies (the discount defendants) improperly treated the service fees paid to wholesalers as discounts, resulting in lower and allegedly false Average Manufacturer Prices.

In November 2013, one of the four remaining discount defendants, Cephalon, Inc., served a third party subpoena for documents upon HDMA. In January 2014, this discovery was then stayed by the Court as Cephalon and another defendant, AstraZeneca Pharmaceuticals LLP, had agreed to settle the case with the Relator. Cephalon and AstraZeneca advised the Court that these settlements could not be finalized until they were reviewed and approved by the federal government and the 26 states on whose behalf the Relator filed the suit. As of May 22, 2014, there is no further public information available from the Court regarding the status of those settlement negotiations.

One of the two remaining non-settling defendants, Genzyme Corp., initiated negotiation with HDMA counsel for issuance of a new, limited subpoena. The new subpoena was served and documents produced shortly thereafter. HDMA’s subpoena production obligations were completed in May 2014. Counsel does not anticipate any further demands upon HDMA.

Memorandum to John Gray and Ann Bittman
May 22, 2014
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As to the two remaining defendants, Genzyme and Biogen Idec, the case continues, with fact discovery to be complete by July 28, 2014, expert discovery to be complete by November 17, 2014, and summary judgment briefing to begin December 29, 2014. A trial date has been set for March 16, 2015.

4. Hydrocodone Rescheduling

As expected, the Drug Enforcement Administration (DEA), acting upon a recommendation from the Department of Health and Human Services (HHS), issued a rule proposing to “upschedule” hydrocodone combination drug products from Schedule III to Schedule II. HDMA, in consultation with members and outside counsel, filed extensive comments on the proposed rule and requested a 12-to-24 month implementation period for meeting the heightened physical security requirements that would be applicable to Schedule II products and clarification of how the agency will ascertain compliance with those requirements; the comments also noted that because of the small number of specialized construction firms that can undertake this type of work, registrants may not be able to meet even that lengthened implementation schedule. HDMA’s comments also addressed the gross underestimation of the Economic Impact Analysis that accompanied the proposed rule and requested its revision.

Well over 500 comments were filed by trade groups, professional associations, law enforcement, individual registrant companies and practitioners, and citizens. They request a wide range of actions on the proposal and it will take some time for DEA to analyze and respond to the comments. This process could take months and a delay of up to a year before final promulgation is possible.

5. Federal Trade Commission (FTC) Actions Against Trade Associations

In May 2014, the FTC Bureau of Competition posted a blog entry discussing the agency’s ongoing attention to trade associations. While recognizing that trade associations undertake many useful and procompetitive activities, FTC staff emphasized that associations and their members must not limit the ability of members to offer products and services to potential customers.

The FTC’s blog post highlighted two cases finalized in December 2013 involving trade associations. These cases, brought against the Music Teachers National Association, Inc. (MTNA) and the California Association of Legal Support Professionals (CALSPRO), both involved associations using codes of conduct to stifle competition among members. MTNA’s code of ethics banned solicitations and prohibited members from actively recruiting students from one another; some affiliates enacted advertising bans and tried to limit pricing and service offerings. CALSPRO’s code of ethics restricted comparative advertising, competition among members on the basis of price, and the recruitment of competitors’ employees.

Memorandum to John Gray and Ann Bittman
May 22, 2014
Page 4 of 4



To ensure continuing compliance with antitrust laws, associations and their members should be cognizant of issues such as the following:

- Association bylaws, rules, and codes should not in any way limit members' ability to compete vigorously with one another.
- Industry codes, guidelines, and other association-sponsored activities should further operational efficiencies, improve product quality, or otherwise be procompetitive.
- For all meetings, including conference calls, agendas should be prepared in advance, antitrust reminders should be provided to participants, and the meeting should adhere to the agenda.
- Information collection activities the association engages in should be carefully monitored to ensure that competitive information is, where necessary, blinded and aggregated.
- Membership policies should be clear, not unduly restrictive, and evenly and consistently applied.
- Counsel should be present when potentially competitive issues are discussed.

Background Information On Pending, Old Matters

6. DEA Settlement With UPS/Continued Investigation Of FedEx

In March 2013, DEA entered into a Non-Prosecution Agreement with UPS in which UPS agreed to forfeit \$40 million in payments it had received from illicit online pharmacies and to implement a compliance program designed to ensure that illegal online pharmacies will not be able to use UPS's services to distribute drugs. At the time the investigation into UPS became public, there was apparently a parallel investigation by DEA of FedEx. No further public information is available regarding the status of that investigation.

7. State of West Virginia Lawsuit

In June 2012, then West Virginia Attorney General Darrell McGraw sued 14 out-of-state drug distributors in West Virginia state court alleging violations of the state Controlled Substances Act and Consumer Credit and Protection Act for their roles in allegedly supplying controlled substances to state "pill mills." The Attorney General sought to enjoin the distributors from distributing any controlled substance for non-medical purposes, recover damages, establish medical monitoring for drug abuse victims, and mandate reporting of suspicious orders to state authorities. Mr. McGraw was replaced by Patrick Morrissey in January 2013; Mr. Morrissey has recused himself from the case. The lawsuit continues to proceed.

ATTENDANCE LIST

MEETING OF: HDMA Board of Directors

DATE: June 1, 2014

LOCATION: JW Marriott Desert Ridge
Phoenix, AZ

ATTENDANCE:

Present:

HDMA Board Members

Timothy Booth, President/COO, Metro Medical Supply, Inc.
Maria Burns, Vice President, Corporate Secretary, Burlington Drug Co., Inc.
Kenneth Couch, President, Smith Drug Company, Div. J M Smith Corporation
Gregory Drew, President, Value Drug Company
Louis Ferraro, Vice President & General Manager, Merchandising and Product Management, Henry Schein, Inc.
Scott Franklin, President, Top Rx
John Gray, President and CEO, HDMA
Terrance Haas, Chief Executive Officer, Harvard Drug Group
Gayle Johnston, CuraScript Specialty Distribution, an Express Scripts Company
Michael Kaufmann, CEO, Pharmaceutical Segment, Cardinal Health, Inc.
David Moody, Chief Executive Officer, Mutual Wholesale Drug Company
David Neu, Senior Vice President and President, AmerisourceBergen Drug Corp.
Albert Paonessa, President, Anda, Inc.
Anthony Rattini, President, Miami Luken, Inc.
G.K. Richards, President, Capital Wholesale Drug Company
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Christopher Schoen, Vice President, Prescription Supply, Inc.
Dale Smith, Chairman and CEO, H.D. Smith
Mary Tim Smith, Executive Vice President, R&S Northeast LLC
Nicholas Smock, President, CEO, PBA Health
R. Todd Szewc, Chief Financial Officer, KeySource Medical, Inc.
Albert Thomas, Associate Vice President and General Manager, VaxServe, a sanofi pasteur company

Absent:

Dawn Boyter, Chief Executive Officer, Richie Pharmacal
Sam Lazich, President, DMS Pharmaceutical Group, Inc.
Raul Rodriguez-Font, President, Drogueria Betances, Inc.
Walter Shikany, President & CEO, Health Coalition, Inc.
Mark Walchirk, President, US Pharmaceutical, McKesson Corporation

HDMA Staff

Ann Bittman, Executive Vice President & COO
Linda Caporaletti-Hoyt, Vice President, Human Resources
Anita Ducca, Vice President, Regulatory Affairs
Perry Fri, Executive Vice President, Industry Relations, Membership & Education
Elizabeth Gallenagh, Senior Vice President, Government Affairs and General
Counsel
Patrick Kelly, Executive Vice President, Government Affairs
Brooke Naylor, Vice President, Meetings & Conferences
John Parker, Senior Vice President, Communications
Ted Pezzullo, Vice President, Information Technology & Facilities
Karen Ribler, Executive Vice President & COO, Center for Healthcare
Supply Chain Research

Legal Counsel

Richard Frank, Esq., Olsson Frank Weeda Terman Matz

Guests

Kevin Knightly, Senior Vice President, Supply Management, IMS Health, Inc.
Doug Long, Vice President, Industry Relations, IMS Health, Inc.
Hossam Sadek, V.P. Global Supplier Services, IMS Health, Inc.

HDMA Board of Directors

Tab A – Financial and Governance Matters



MEMORANDUM

TO: HDMA Board of Directors

FR: Ann Bittman

DATE: May 22, 2014

RE: **HDMA 2013 Financial Audit Report**

2013 Financial Results

We are pleased to report that we ended 2013 with an **Operating Net Surplus of \$17,421.**

On the revenue side, we had higher than anticipated registrations for the November Track & Trace Seminar, an unexpected sponsorship for a Traceability webinar held in November and some new allied members at year-end. On the expense side, savings on some legal fees and other professional fees contributed to our better-than-expected financial finish for the year.

Operating Revenue came in at \$11.75 million, which was \$50,860 (0.43%) above Projection and \$3,162 under the Original Budget.

Manufacturer Member Dues Revenue was \$157,993 (5.7%) lower than the Original Budget as a result of continued industry consolidation.

Sponsorship Revenue was higher than the Original Budget by \$41,150 (4.0%) as a result of securing additional sponsors for DMC, ABMM, the Track & Trace Seminar and Traceability legislation webinar.

The remaining \$37,369 of the **SBDA Reserve Fund** was spent during 2013 rather than in 2012, as originally envisioned.

Operating Expenses were \$11.73 million, which was \$104,127 (0.9%) higher than Projected and \$95,247 (0.8%) lower than the Original Budget.

Payroll spending was over Projection by \$155,967 (2.4%) and over the Original Budget by \$174,370 (2.7%) due to funding the 4% discretionary 401(k) contribution, which was not originally budgeted.

Depreciation expense was \$40,883 (22.8%) under the Original Budget due to a delay in the website redesign project, which has not been completed and, thus, no depreciation has yet been taken on that asset.

Rent expense is \$43,887 (7%) higher than the Original Budget because of an accounting adjustment related to terminating HDMA's office lease 28 months early on December 31, 2013.

Legal Fees were \$44,966 (7%) under the Original Budget and \$20,117 (3.3%) under Projection due to slightly less need for these services during 2013.

Meeting expense were \$139,374 (8.7%) under the Original Budget due to savings across the board on HDMA's conferences, especially on Food & Beverage, Room Credits and Rebates, Production and Sponsored Items.

In the **Reserve Fund**, we had Investment Income of \$1.70 million (14.28%) for the year, well ahead of budgeted Investment Income of \$275,000. The balance in the Reserve Fund at December 31, 2013 was \$12.84 million, which exceeds the annual target level of one year's operating expenses (\$11.73 million).

2013 Audit Results

Following this memo are HDMA's 2013 year-end financial statements in the format that we use internally and a complete set of 2013 audited financial statements, including the auditors' Required Communications Letter and Management Letter. HDMA's Audit Committee met via conference call on April 4th with our auditors from Tate & Tryon to review the audited statements and related reports. The HDMA Audit Committee members are Mike Kaufmann (Chair), Raul Rodriguez-Font and Maria Burns.

During the call, the audit partner, Doug Boedeker, reviewed the "required communications letter" and noted that the audit went very smoothly and there were no disagreements with management. There were no proposed audit adjustments to the financial statements presented by management.

He reviewed the "management letter," which communicates any deficiencies or internal control weakness, of which there were none. He noted one best practice recommendation: that HDMA conduct a periodic review of its vendor listing for incorrect or unusual items. HDMA staff will perform this review before year-end.

The audited statements consolidate the financials of HDMA, The Center for Healthcare Supply Chain Research and the HDMA Political Action Committee (PAC) and the auditor's opinion is unqualified.

The Audit Committee was satisfied with the 2013 draft audit report and financial statements.

Attached are HDMA's 2013 year-end:

- Balance Sheet
- Operating Financial Statement
- Reserve Fund Financial Statement
- Consolidated Financial Statement - Operating and Reserve Fund
- Audited Financial Statements and Accompanying Reports

**Healthcare Distribution Management Association
Balance Sheet
December 31, 2013**

	<u>Current YTD Balance 12/31/13</u>	<u>Prior YTD Balance 12/31/12</u>	<u>Audited Balance 12/31/12</u>
Assets			
Cash & Cash Equivalents			
Checking Accounts	\$1,788,943	\$3,529,991	\$3,529,991
Short Term Investments	209,411	208,634	208,634
Total Cash & Cash Equivalents	1,998,354	3,738,625	3,738,625
Investments			
Annuities	646,542	564,895	564,895
Long Term Portfolio at FMV	12,192,926	11,370,293	11,370,293
Total Investments	12,839,468	11,935,188	11,935,188
Accounts Receivable			
General	640,434	3,250	3,250
Accrued Interest	6,487	13,116	13,116
The Center for Healthcare Supply Chain Research	57,864	185,260	185,260
Miscellaneous	2,680	23	23
Total Accounts Receivable	707,465	201,649	201,649
Other Assets			
Staff Travel/Expense Advance	3,599	2,862	2,862
Deposits	109,507	42,975	42,975
Prepaid Expenses	195,681	215,903	215,903
Investment-HDMA Service Corp	1,000	1,000	1,000
Other	1,028,562	520,414	520,414
Total Other Assets	1,338,349	783,154	783,154
Fixed Assets			
Furniture & Equipment	1,457,420	1,513,215	1,513,215
Office Improvements		816,026	816,026
Accumulated Depreciation	(1,342,452)	(1,974,405)	(1,974,405)
Total Fixed Assets	114,968	354,836	354,836
Total Assets	<u>\$16,998,604</u>	<u>\$17,013,452</u>	<u>\$17,013,452</u>
Liabilities			
Accts. Payable & Accrued Expenses			
General	247,874	325,997	325,997
HDMA Service Corporation	1,000	1,000	1,000
Due to HDMA Center	13,583		
Accrued Expenses	302,486	292,999	292,999
Payroll Withholding	9,748	9,962	9,962
Total Accounts Payable/Accrued Expense	574,691	629,958	629,958
Deferred Revenue			
Meetings	1,247,184	542,260	542,260
Membership Dues	707,568	2,282,285	2,282,285
LEF	8,052	8,052	8,052
SBDC		37,369	37,369
Other	750		
General	1,990	1,000	1,000
Total Deferred Revenue	1,965,544	2,870,966	2,870,966
Other Liabilities			
JBG Improvement Allowance		199,103	199,103
Deferred Compensation & 457 Plans	1,052,498	564,662	564,662
Total Other Liabilities	1,052,498	763,765	763,765
Total Liabilities	3,592,733	4,264,689	4,264,689
Fund Balance			
Beginning of Year	12,748,764	11,877,301	11,877,301
Net Income (Loss) YTD	657,107	871,462	871,462
Total Fund Balance	<u>13,405,871</u>	<u>12,748,763</u>	<u>12,748,763</u>
Total Liabilities and Fund Balance	<u>\$16,998,604</u>	<u>\$17,013,452</u>	<u>\$17,013,452</u>

Healthcare Distribution Management Association
Operating Budget
For the Twelve Months Ended December 31, 2013

	2013 UNAUDITED ACTUAL	2013 PROJECTED ACTUAL	DIFFERENCE ACTUAL TO PROJECTI	2013 ANNUAL BUDGET	DIFFERENCE ACTUAL TO BUDGET	2012 AUDITED ACTUAL
HDMA REVENUE						
Membership						
Distributors	\$4,806,950	\$4,806,950		\$4,759,746	\$47,204	\$4,735,907
Manufacturers	2,627,121	2,627,121		2,785,114	(157,993)	2,737,122
Manufacturers - HBW	8,700	8,700		5,800	2,900	2,900
Allied	358,750	353,750	5,000	324,215	34,535	327,125
International	5,958	5,958		5,500	458	6,567
Entrance & Late Fees	21,750	12,250	9,500	20,000	1,750	30,500
Total	7,829,229	7,814,729	14,500	7,900,375	(71,146)	7,840,121
Meeting Fees						
Registration Fees	2,541,002	2,513,030	27,972	2,540,175	827	2,577,974
Exhibit Fees	195,625	195,625		179,625	16,000	219,500
Total	2,736,627	2,708,655	27,972	2,719,800	16,827	2,797,474
Publications	5,810	4,560	1,250	15,000	(9,190)	13,910
Sponsorships	1,067,150	1,059,650	7,500	1,026,000	41,150	970,200
Investment Income						
Interest and Dividends	5,596	5,000	596	25,000	(19,404)	15,927
Total	5,596	5,000	596	25,000	(19,404)	15,927
Other Income						
SBDC Reserve Funding	37,369	37,369			37,369	146,171
Gain on Sale of Assets	50		50		50	320
Miscellaneous	65,157	66,165	(1,008)	63,975	1,182	64,607
Total	102,576	103,534	(958)	63,975	38,601	211,098
Total Revenue	11,746,988	11,696,128	50,860	11,750,150	(3,162)	11,848,730
HDMA EXPENSES						
Payroll & Benefits						
Payroll & Benefits	6,643,611	6,479,088	164,523	6,453,687	189,924	6,588,505
Training	19,255	25,215	(5,960)	34,865	(15,610)	25,100
Temps	556	3,152	(2,596)	500	56	137
Total	6,663,422	6,507,455	155,967	6,489,052	174,370	6,613,742
Travel & Entertainment	350,498	356,265	(5,767)	410,237	(59,739)	350,540
Office Expense						
Depreciation	138,722	139,790	(1,068)	179,605	(40,883)	138,037
Dues & Memberships	97,991	91,823	6,168	71,789	26,202	94,994
Telephone, Internet & Fax	86,417	83,472	2,945	85,459	958	75,665
Supplies	58,285	46,983	11,302	56,275	2,010	66,850
Copier	25,586	26,860	(1,274)	26,860	(1,274)	43,036
Postage & Delivery	28,415	30,369	(1,954)	38,549	(10,134)	19,116
Printing Expense	55,589	57,566	(1,977)	74,378	(18,789)	64,005
Corporate Taxes	21,618	21,490	128	25,030	(3,412)	23,560
Insurance	34,015	33,963	52	33,819	196	33,954
Interest Expense	(20,241)	(20,241)		(15,000)	(5,241)	(17,114)
Bank & Credit Card Fees	82,763	82,500	263	94,850	(12,087)	100,694
Publications & Subscriptions	35,855	36,831	(976)	31,882	3,973	19,639
Rent	673,728	674,983	(1,255)	629,841	43,887	617,114
Maintenance	11,221	12,408	(1,187)	12,868	(1,647)	12,005
Software Contracts & Licenses	103,904	108,197	(4,293)	111,800	(7,896)	104,864
Loss on Disposal of Assets	1,019		1,019		1,019	
Other Expense	15,241	16,290	(1,049)	6,987	8,254	2,322
Total	1,450,128	1,443,284	6,844	1,464,992	(14,864)	1,398,741
Professional Fees						
Audit/Accounting Fees	25,027	25,040	(13)	25,040	(13)	24,312

Healthcare Distribution Management Association
Operating Budget
For the Twelve Months Ended December 31, 2013

	2013 UNAUDITED ACTUAL	2013 PROJECTED ACTUAL	DIFFERENCE ACTUAL TO PROJECTI	2013 ANNUAL BUDGET	DIFFERENCE ACTUAL TO BUDGET	2012 AUDITED ACTUAL
Legal Fees	\$597,008	\$617,125	(\$20,117)	\$641,974	(\$44,966)	\$696,836
Monitoring Services	86,540	88,042	(1,502)	95,500	(8,960)	80,800
System Support	67,121	86,000	(18,879)	56,000	11,121	17,952
Publications Design	16,048	15,000	1,048	15,750	298	730
Marketing Consultant				6,000	(6,000)	
State Lobbyists Fees	372,148	371,230	918	382,000	(9,852)	343,884
Human Resources	26,317	24,350	1,967	15,100	11,217	23,261
Other Advisors & Consultants	627,717	628,074	(357)	623,000	4,717	616,227
Total	1,817,926	1,854,861	(36,935)	1,860,364	(42,438)	1,804,002
Overhead Allocations	(150,000)	(150,000)		(150,000)		(150,000)
Meeting Expense						
Decorator/Decor	59,244	57,683	1,561	41,000	18,244	37,388
Production	194,211	194,211		207,000	(12,789)	188,934
Entertainment	13,013	13,263	(250)	11,500	1,513	12,084
Sports/Tours	1,338	543	795	1,500	(162)	1,035
Uniforms						2
Electricity	117	117		1,750	(1,633)	
Internet Cafe	1,434	1,434		6,000	(4,566)	5,485
Internet Access Onsite	2,702	2,702		5,500	(2,798)	832
Room Credits & Rebates	(83,543)	(76,407)	(7,136)	(64,697)	(18,846)	(74,322)
Security	9,638	9,788	(150)	11,450	(1,812)	8,916
Signage	12,142	12,143	(1)	22,950	(10,808)	18,862
Speakers	340,300	337,468	2,832	348,750	(8,450)	273,794
Interpreter Services	2,378	2,378		15,000	(12,622)	11,126
Gratuities	3,000	3,217	(217)	2,850	150	2,328
Audio Visual	50,996	51,369	(373)	49,500	1,496	36,973
Attrition						3,843
General Meeting Expense	600	3,600	(3,000)	4,600	(4,000)	
Food & Beverage	629,754	622,738	7,016	674,368	(44,614)	652,856
Sponsored Items	76,591	80,191	(3,600)	109,100	(32,509)	84,011
Exhibits	115,450	115,446	4	123,812	(8,362)	109,896
Gifts & Awards	37,794	41,117	(3,323)	34,600	3,194	45,998
Total	1,467,159	1,473,001	(5,842)	1,606,533	(139,374)	1,420,041
Other						
Photography	10,220	11,853	(1,633)	13,400	(3,180)	24,754
Sponsorships & Events	62,500	71,000	(8,500)	70,000	(7,500)	51,838
Charitable Contributions	7,104	6,500	604	6,500	604	6,700
Industry/Issue Awareness Ads	17,000	17,000		3,000	14,000	4,650
Marketing Expenses	15,031	16,721	(1,690)	37,236	(22,205)	22,259
Media Monitoring	18,579	17,500	1,079	13,500	5,079	19,111
Total	130,434	140,574	(10,140)	143,636	(13,202)	129,312
Total Expense	11,729,567	11,625,440	104,127	11,824,814	(95,247)	11,566,378
Excess Income/Expense	17,421	70,688	(53,267)	(74,664)	92,085	282,352

Healthcare Distribution Management Association
Reserve Fund
For the Twelve Months Ended December 31, 2013

	<u>2013 UNAUDITED ACTUAL</u>	<u>2013 PROJECTED ACTUAL</u>	<u>DIFFERENCE ACTUAL TO PROJECTI</u>	<u>2013 ANNUAL BUDGET</u>	<u>DIFFERENCE ACTUAL TO BUDGET</u>	<u>2012 AUDITED ACTUAL</u>
HDMA REVENUE						
Investment Income						
Interest and Dividends	\$340,899	\$275,000	\$65,899	\$275,000	\$65,899	\$352,739
Realized, Unrealized Gains (Loss)	<u>1,363,790</u>		<u>1,363,790</u>		<u>1,363,790</u>	<u>1,005,285</u>
Total	<u>1,704,689</u>	<u>275,000</u>	<u>1,429,689</u>	<u>275,000</u>	<u>1,429,689</u>	<u>1,358,024</u>
Total Revenue	<u><u>1,704,689</u></u>	<u><u>275,000</u></u>	<u><u>1,429,689</u></u>	<u><u>275,000</u></u>	<u><u>1,429,689</u></u>	<u><u>1,358,024</u></u>
HDMA EXPENSES						
Payroll & Benefits						
Payroll & Benefits	<u>322,500</u>	<u>322,500</u>		<u>322,500</u>		<u>320,164</u>
Total	<u>322,500</u>	<u>322,500</u>		<u>322,500</u>		<u>320,164</u>
Professional Fees						
Investment	67,737	70,000	(2,263)	70,000	(2,263)	61,214
Other Advisors & Consultants	<u>457,764</u>	<u>515,000</u>	<u>(57,236)</u>	<u>1,015,000</u>	<u>(557,236)</u>	<u>62,534</u>
Total	<u>525,501</u>	<u>585,000</u>	<u>(59,499)</u>	<u>1,085,000</u>	<u>(559,499)</u>	<u>123,748</u>
Other						
Contribution to HDMA Center	<u>217,000</u>	<u>217,000</u>		<u>217,000</u>		<u>325,000</u>
Total	<u>217,000</u>	<u>217,000</u>		<u>217,000</u>		<u>325,000</u>
Total Expense	<u><u>1,065,001</u></u>	<u><u>1,124,500</u></u>	<u><u>(59,499)</u></u>	<u><u>1,624,500</u></u>	<u><u>(559,499)</u></u>	<u><u>768,912</u></u>
Excess Income/Expense	<u><u>639,688</u></u>	<u><u>(849,500)</u></u>	<u><u>1,489,188</u></u>	<u><u>(1,349,500)</u></u>	<u><u>1,989,188</u></u>	<u><u>589,112</u></u>

Healthcare Distribution Management Association
Consolidated
For the Twelve Months Ended December 31, 2013

	<u>2013 UNAUDITED ACTUAL</u>	<u>2013 PROJECTED ACTUAL</u>	<u>DIFFERENCE ACTUAL TO PROJECTI</u>	<u>2013 ANNUAL BUDGET</u>	<u>DIFFERENCE ACTUAL TO BUDGET</u>	<u>2012 AUDITED ACTUAL</u>
HDMA REVENUE						
Membership						
Distributors	\$4,806,950	\$4,806,950		\$4,759,746	\$47,204	\$4,735,907
Manufacturers	2,627,121	2,627,121		2,785,114	(157,993)	2,737,122
Manufacturers - HBW	8,700	8,700		5,800	2,900	2,900
Allied	358,750	353,750	5,000	324,215	34,535	327,125
International	5,958	5,958		5,500	458	6,567
Entrance & Late Fees	21,750	12,250	9,500	20,000	1,750	30,500
Total	<u>7,829,229</u>	<u>7,814,729</u>	<u>14,500</u>	<u>7,900,375</u>	<u>(71,146)</u>	<u>7,840,121</u>
Meeting Fees						
Registration Fees	2,541,002	2,513,030	27,972	2,540,175	827	2,577,974
Exhibit Fees	195,625	195,625		179,625	16,000	219,500
Total	<u>2,736,627</u>	<u>2,708,655</u>	<u>27,972</u>	<u>2,719,800</u>	<u>16,827</u>	<u>2,797,474</u>
Publications	5,810	4,560	1,250	15,000	(9,190)	13,910
Sponsorships	1,067,150	1,059,650	7,500	1,026,000	41,150	970,200
Investment Income						
Interest and Dividends	346,494	280,000	66,494	300,000	46,494	368,667
Realized, Unrealized Gains (Loss)	1,363,790		1,363,790		1,363,790	1,005,285
Total	<u>1,710,284</u>	<u>280,000</u>	<u>1,430,284</u>	<u>300,000</u>	<u>1,410,284</u>	<u>1,373,952</u>
Other Income						
SBDC Reserve Funding	37,369	37,369			37,369	146,171
Gain on Sale of Assets	50		50		50	320
Miscellaneous	65,157	66,165	(1,008)	63,975	1,182	64,607
Total	<u>102,576</u>	<u>103,534</u>	<u>(958)</u>	<u>63,975</u>	<u>38,601</u>	<u>211,098</u>
Total Revenue	<u>13,451,676</u>	<u>11,971,128</u>	<u>1,480,548</u>	<u>12,025,150</u>	<u>1,426,526</u>	<u>13,206,755</u>
HDMA EXPENSES						
Payroll & Benefits						
Payroll & Benefits	6,966,111	6,801,588	164,523	6,776,187	189,924	6,908,669
Training	19,255	25,215	(5,960)	34,865	(15,610)	25,100
Temps	556	3,152	(2,596)	500	56	137
Total	<u>6,985,922</u>	<u>6,829,955</u>	<u>155,967</u>	<u>6,811,552</u>	<u>174,370</u>	<u>6,933,906</u>
Travel & Entertainment	350,498	356,265	(5,767)	410,237	(59,739)	350,540
Office Expense						
Depreciation	138,722	139,790	(1,068)	179,605	(40,883)	138,037
Dues & Memberships	97,991	91,823	6,168	71,789	26,202	94,994
Telephone, Internet & Fax	86,417	83,472	2,945	85,459	958	75,665
Supplies	58,285	46,983	11,302	56,275	2,010	66,850
Copier	25,586	26,860	(1,274)	26,860	(1,274)	43,036
Postage & Delivery	28,415	30,369	(1,954)	38,549	(10,134)	19,116
Printing Expense	55,589	57,566	(1,977)	74,378	(18,789)	64,005
Corporate Taxes	21,618	21,490	128	25,030	(3,412)	23,560
Insurance	34,015	33,963	52	33,819	196	33,954
Interest Expense	(20,241)	(20,241)		(15,000)	(5,241)	(17,114)
Bank & Credit Card Fees	82,763	82,500	263	94,850	(12,087)	100,694
Publications & Subscriptions	35,855	36,831	(976)	31,882	3,973	19,639
Rent	673,728	674,983	(1,255)	629,841	43,887	617,114
Maintenance	11,221	12,408	(1,187)	12,868	(1,647)	12,005
Software Contracts & Licenses	103,904	108,197	(4,293)	111,800	(7,896)	104,864
Loss on Disposal of Assets	1,019		1,019		1,019	
Other Expense	15,241	16,290	(1,049)	6,987	8,254	2,322
Total	<u>1,450,128</u>	<u>1,443,284</u>	<u>6,844</u>	<u>1,464,992</u>	<u>(14,864)</u>	<u>1,398,741</u>
Professional Fees						

Healthcare Distribution Management Association
Consolidated
For the Twelve Months Ended December 31, 2013

	2013 UNAUDITED ACTUAL	2013 PROJECTED ACTUAL	DIFFERENCE ACTUAL TO PROJECTI	2013 ANNUAL BUDGET	DIFFERENCE ACTUAL TO BUDGET	2012 AUDITED ACTUAL
Audit/Accounting Fees	\$25,027	\$25,040	(\$13)	\$25,040	(\$13)	\$24,312
Investment	67,737	70,000	(2,263)	70,000	(2,263)	61,214
Legal Fees	597,008	617,125	(20,117)	641,974	(44,966)	696,836
Monitoring Services	86,540	88,042	(1,502)	95,500	(8,960)	80,800
System Support	67,121	86,000	(18,879)	56,000	11,121	17,952
Publications Design	16,048	15,000	1,048	15,750	298	730
Marketing Consultant				6,000	(6,000)	
State Lobbyists Fees	372,148	371,230	918	382,000	(9,852)	343,884
Human Resources	26,317	24,350	1,967	15,100	11,217	23,261
Other Advisors & Consultants	<u>1,085,481</u>	<u>1,143,074</u>	<u>(57,593)</u>	<u>1,638,000</u>	<u>(552,519)</u>	<u>678,761</u>
Total	2,343,427	2,439,861	(96,434)	2,945,364	(601,937)	1,927,750
Overhead Allocations	(150,000)	(150,000)		(150,000)		(150,000)
Meeting Expense						
Decorator/Decor	59,244	57,683	1,561	41,000	18,244	37,388
Production	194,211	194,211		207,000	(12,789)	188,934
Entertainment	13,013	13,263	(250)	11,500	1,513	12,084
Sports/Tours	1,338	543	795	1,500	(162)	1,035
Uniforms						2
Electricity	117	117		1,750	(1,633)	
Internet Cafe	1,434	1,434		6,000	(4,566)	5,485
Internet Access Onsite	2,702	2,702		5,500	(2,798)	832
Room Credits & Rebates	(83,543)	(76,407)	(7,136)	(64,697)	(18,846)	(74,322)
Security	9,638	9,788	(150)	11,450	(1,812)	8,916
Signage	12,142	12,143	(1)	22,950	(10,808)	18,862
Speakers	340,300	337,468	2,832	348,750	(8,450)	273,794
Interpreter Services	2,378	2,378		15,000	(12,622)	11,126
Gratuities	3,000	3,217	(217)	2,850	150	2,328
Audio Visual	50,996	51,369	(373)	49,500	1,496	36,973
Attrition						3,843
General Meeting Expense	600	3,600	(3,000)	4,600	(4,000)	
Food & Beverage	629,754	622,738	7,016	674,368	(44,614)	652,856
Sponsored Items	76,591	80,191	(3,600)	109,100	(32,509)	84,011
Exhibits	115,450	115,446	4	123,812	(8,362)	109,896
Gifts & Awards	<u>37,794</u>	<u>41,117</u>	<u>(3,323)</u>	<u>34,600</u>	<u>3,194</u>	<u>45,998</u>
Total	1,467,159	1,473,001	(5,842)	1,606,533	(139,374)	1,420,041
Other						
Photography	10,220	11,853	(1,633)	13,400	(3,180)	24,754
Sponsorships & Events	62,500	71,000	(8,500)	70,000	(7,500)	51,838
Charitable Contributions	7,104	6,500	604	6,500		6,700
Industry/Issue Awareness Ads	17,000	17,000		3,000	14,000	4,650
Marketing Expenses	15,031	16,721	(1,690)	37,236	(22,205)	22,259
Media Monitoring	18,579	17,500	1,079	13,500	5,079	19,111
Contribution to HDMA Center	<u>217,000</u>	<u>217,000</u>		<u>217,000</u>		<u>325,000</u>
Total	347,434	357,574	(10,140)	360,636	(13,202)	454,312
Total Expense	<u>12,794,568</u>	<u>12,749,940</u>	<u>44,628</u>	<u>13,449,314</u>	<u>(654,746)</u>	<u>12,335,290</u>
Excess Income/Expense	<u>657,108</u>	<u>(778,812)</u>	<u>1,435,920</u>	<u>(1,424,164)</u>	<u>2,081,272</u>	<u>871,465</u>

**Audited Consolidated Financial Statements
and Other Financial Information**

**HEALTHCARE DISTRIBUTION MANAGEMENT
ASSOCIATION & AFFILIATES**

December 31, 2013

**Healthcare Distribution Management
Association & Affiliates**

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Independent Auditor's Report on the Consolidated Financial Statements

To the Board of Directors
Healthcare Distribution Management
Association & Affiliates

We have audited the accompanying consolidated financial statements of Healthcare Distribution Management Association & Affiliates (the Organization), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Healthcare Distribution Management Association & Affiliates as of December 31, 2013 and 2012, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Washington, DC
February 28, 2014

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Healthcare Distribution Management Association & Affiliates

Consolidated Statements of Financial Position

<i>December 31,</i>	2013	2012
Assets		
Cash and cash equivalents	\$ 2,569,201	\$ 4,512,069
Accounts receivable	44,518	19,284
Investments	12,856,988	11,948,632
Prepaid expenses and other assets	1,519,387	914,844
Property and equipment	114,968	354,836
Total assets	\$ 17,105,062	\$ 17,749,665
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 594,820	\$ 709,064
Deferred revenue	1,332,609	3,028,741
Deferred compensation and annuities	1,234,535	683,745
Deferred rental incentive	-	199,103
Total liabilities	3,161,964	4,620,653
Net Assets		
Unrestricted	13,596,852	12,813,223
Temporarily restricted	346,246	315,789
Total net assets	13,943,098	13,129,012
Total liabilities and net assets	\$ 17,105,062	\$ 17,749,665

See notes to the consolidated financial statements.

Healthcare Distribution Management Association & Affiliates

Consolidated Statements of Activities

<i>Year Ended December 31,</i>	2013	2012
Unrestricted activities		
Revenue and support		
Membership dues and fees	\$ 7,829,229	\$ 7,840,121
Meetings and education	3,848,816	3,840,783
Investment income	1,715,391	1,376,772
Sponsorships and publications	499,698	421,971
Contributions	510,876	331,026
Other	102,576	211,098
Net assets released from restriction	83,366	85,003
Total unrestricted revenue and support	14,589,952	14,106,774
Expenses		
Program services		
Government affairs	4,061,926	3,692,969
Meetings and education	2,195,963	1,969,182
Industry relations	1,605,318	1,640,269
Communications and marketing	690,887	664,575
Center research projects	467,188	545,455
Total program services	9,021,282	8,512,450
Supporting services		
General administration	4,652,797	4,601,856
Fund raising	132,244	125,313
Total supporting services	4,785,041	4,727,169
Total expenses	13,806,323	13,239,619
Change in unrestricted net assets	783,629	867,155
Temporarily restricted activities		
Contributions	113,823	113,791
Net assets released from restriction	(83,366)	(85,003)
Change in temporarily restricted net assets	30,457	28,788
Change in net assets	814,086	895,943
Net assets, beginning of year	13,129,012	12,233,069
Net assets, end of year	\$ 13,943,098	\$ 13,129,012

See notes to the consolidated financial statements.

Healthcare Distribution Management Association & Affiliates

Consolidated Statements of Cash Flows

<i>Year Ended December 31,</i>	2013	2012
Cash flows from operating activities		
Change in net assets	\$ 814,086	\$ 895,943
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	138,722	138,037
Loss (gain) on disposal of property and equipment	48,397	(320)
Net gain on investments	(1,367,576)	(1,006,349)
Changes in assets and liabilities:		
Accounts receivable	(25,234)	16,538
Prepaid expenses and other assets	(604,543)	556,994
Accounts payable and accrued expenses	(114,244)	40,032
Deferred revenue	(1,696,132)	78,294
Deferred compensation and annuities	550,790	(459,023)
Deferred rental incentive	(59,731)	(59,731)
Total adjustments	(3,129,551)	(695,528)
Net cash (used in) provided by operating activities	(2,315,465)	200,415
Cash flows from investing activities		
Proceeds from sale of investments	6,700,618	2,646,981
Purchases of investments	(6,241,398)	(2,311,417)
Proceeds from sale of property and equipment	50	320
Purchases of property and equipment	(86,673)	(10,930)
Net cash provided by investing activities	372,597	324,954
Net (decrease) increase in cash and cash equivalents	(1,942,868)	525,369
Cash and cash equivalents, beginning of year	4,512,069	3,986,700
Cash and cash equivalents, end of year	\$ 2,569,201	\$ 4,512,069

See notes to the consolidated financial statements.

Healthcare Distribution Management Association & Affiliates

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Healthcare Distribution Management Association (HDMA) is a national trade association, whose purpose is to secure safe and effective distribution of healthcare products, create and exchange industry knowledge affecting the future of distribution management, and influence standards and business processes that produce efficient health care commerce.

Center for Healthcare Supply Chain Research (the Center) was organized and operates exclusively for charitable, educational, and research purposes, namely, to carry out the purely research, educational, and charitable activities of HDMA. The Center is empowered to promote public understanding of the healthcare supply chain and to provide public educational information concerning the healthcare supply chain.

Healthcare Distribution Management Association Political Action Committee (HDMA PAC) was organized as a voluntary, non-profit, unincorporated association to further the interests of HDMA and the drug distribution industry and to promote good citizenship through personal and financial participation in the elective process.

Principles of consolidation: The consolidated financial statements include the accounts of HDMA, the Center, and HDMA PAC (collectively referred to as the Organization). Significant intra-entity accounts and transactions have been eliminated in consolidation.

Income taxes: HDMA is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code (IRC), except on net income derived from unrelated business activities. The Center is exempt from federal income taxes under IRC Section 501(c)(3), except on net income derived from unrelated business activities and has been classified as other than a private foundation by the Internal Revenue Service under IRC Section 509(a)(3). HDMA PAC is exempt from the payment of federal income taxes on its exempt activities under Section 527 of the IRC.

The Organization records interest and penalties as income tax expense and did not incur any interest or penalties during each of the years ended December 31, 2013 and 2012. Management did not identify any uncertain income tax positions. At a minimum, the Organization's income tax returns for 2010 through 2013 are subject to examination by the IRS, generally for three years after they were filed.

Basis of accounting: The consolidated financial statements are prepared on the accrual basis of accounting. As such, revenue is recognized when earned and expenses are recognized when the underlying obligations are incurred.

Use of estimates: Preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

Cash and cash equivalents: For financial statement purposes, the Organization considers all investments managed by outside brokers to be other than cash equivalents.

Healthcare Distribution Management Association & Affiliates

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accounts receivable: Accounts receivable consists primarily of amounts owed from customers as a result of the sale of conference registrations and accrued interest. Accounts receivable are presented at the gross, or face, amount due to the Organization. The Organization's management periodically reviews the status of all accounts receivable balances for collectibility. Each receivable balance is assessed based on management's knowledge of the customer, the Organization's relationship with the customer, and the age of the receivable balance. As a result of these reviews, customer balances deemed to be uncollectible are charged directly to bad debt expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for bad debts had been recorded.

Property and equipment: Acquisitions of property and equipment greater than \$1,000 are recorded at cost. Depreciation is calculated using the straight-line method over the useful lives of the furniture and equipment (three to five years). Leasehold improvements are amortized over the lesser of their useful lives or the term of the applicable lease.

Deferred revenue: Deferred revenue principally consists of membership dues and meeting registration fees received in advance. Membership dues are recognized as revenue over the related membership period. Meeting registration fees are recognized as revenue once the related meeting has taken place.

Net assets: Net assets are comprised of the following categories:

Unrestricted: Unrestricted net assets are available for general operations.

Temporarily restricted: Temporarily restricted net assets are restricted by donor-imposed stipulations that expire either with the passage of time or satisfaction of program requirements.

Contributions: Contributions are recorded as unrestricted or temporarily restricted support depending upon the existence and/or nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. Donor-restricted support is reported as an increase in temporarily restricted net assets and then reclassified to unrestricted net assets when the restriction expires.

Functional allocation of expenses: Expenses have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent events: Subsequent events have been evaluated through February 28, 2014, which is the date the consolidated financial statements were available to be issued.

B. CREDIT RISK AND FLUCTUATIONS IN FAIR VALUE

Credit risk: The Organization maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to the Organization.

Healthcare Distribution Management Association & Affiliates

Notes to the Consolidated Financial Statements

B. CREDIT RISK AND FLUCTUATIONS IN FAIR VALUE - CONTINUED

Market value risk: The Organization also invests funds in a professionally managed portfolio that contains various types of investment securities. Such investments are exposed to market and credit risks. The Organization's financial investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in these consolidated financial statements may not be reflective of the portfolio's value during subsequent periods.

C. FAIR VALUE MEASUREMENTS

Accounting standards establish a framework for measuring fair value and expand disclosures about fair value measurements. This standard uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than level 1 that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk such as bid/ask spreads and liquidity discounts.

Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets valued using level 3 inputs are reported at their estimated fair value based on the fair value of the underlying hedge funds as determined by the fund managers.

The following is a summary of the input levels used to determine fair values, measured on a recurring basis, at December 31,:

	2013			
	Total	Fair value		
		Level 1	Level 2	Level 3
Assets				
Investments				
U.S. government and agency obligations	\$ 60,554	\$ -	\$ 60,554	\$ -
Mutual funds	5,966,789	5,966,789		
Corporate bonds	930,489		930,489	
Stocks	4,245,104	4,245,104		
Hedge fund of funds	782,818			782,818
Investments carried at fair value	11,985,754	\$ 10,211,893	\$ 991,043	\$ 782,818
Money market funds *	871,234			
Total investments	12,856,988			
Assets held for deferred compensation				
Mutual funds	880,574	\$ 880,574	\$ -	\$ -
	<u>\$ 13,737,562</u>			

Healthcare Distribution Management Association & Affiliates

Notes to the Consolidated Financial Statements

C. FAIR VALUE MEASUREMENTS – CONTINUED

	2012			
	Total	Fair value		
		Level 1	Level 2	Level 3
Assets				
Investments				
U.S. government and agency obligations	\$ 89,583	\$ -	\$ 89,583	\$ -
Mutual funds	4,406,247	4,406,247		
Corporate bonds	1,719,007		1,719,007	
Stocks	4,576,884	4,576,884		
Hedge fund of funds	352,578			352,578
Investments carried at fair value	11,144,299	\$ 8,983,131	\$ 1,808,590	\$ 352,578
Money market funds *	804,333			
Total investments	11,948,632			
Assets held for deferred compensation				
Mutual funds	622,943	\$ 622,943	\$ -	\$ -
	<u>\$ 12,571,575</u>			

* Money market funds included in the investment portfolio are not subject to the provisions of fair value measurements as they were recorded at cost. (Management believes that cost approximates fair value for these items.)

The assets held for deferred compensation are included in prepaid expenses and other assets in the consolidated statements of financial position as of December 31, 2013 and 2012.

The investments using Level 3 inputs consist of investments in Alternative Investment Partners' Absolute Return Fund (Absolute Return Fund) and in Blackstone Alternative Alpha Fund (Alpha Fund). These funds are priced by the administrators based upon the value of the underlying securities using a market approach. The funds' investment objectives are to seek capital appreciation principally through investing in investment funds managed by third party investment managers who employ a variety of "absolute return" investment strategies in pursuit of attractive risk-adjusted returns consistent with the preservation of capital.

Redemptions from the funds are restricted to a quarterly schedule and are due one month after the end of the applicable quarter. Full redemptions are subject to a 5% holdback. Holdback amounts are to be paid after the completion of the fund's annual audit.

Level 3 investments are reconciled as follows for the years ended December 31,:

	2013	2012
Beginning balance	\$ 352,578	\$ 653,877
Realized gain	-	37,411
Unrealized gain	64,263	27,267
Purchases	365,977	-
Sales	-	(365,977)
Ending balance	<u>\$ 782,818</u>	<u>\$ 352,578</u>

Healthcare Distribution Management Association & Affiliates

Notes to the Consolidated Financial Statements

D. INVESTMENTS

Investments are stated at fair value and consisted of the following at December 31,:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 873,099	\$ 871,234	\$ 790,854	\$ 804,333
U.S. government and agency obligations	54,129	60,554	79,463	89,583
Mutual funds	5,610,067	5,966,789	4,158,172	4,406,247
Corporate bonds	873,458	930,489	1,625,798	1,719,007
Stocks	3,494,184	4,245,104	4,247,409	4,576,884
Hedge fund of funds	715,977	782,818	350,000	352,578
	<u>\$ 11,620,914</u>	<u>\$ 12,856,988</u>	<u>\$ 11,251,696</u>	<u>\$ 11,948,632</u>

Investment income consisted of the following for the years ended December 31,:

	2013	2012
Interest and dividends	\$ 347,815	\$ 370,423
Net realized gain	853,891	175,598
Net unrealized gain	<u>513,685</u>	<u>830,751</u>
	<u>\$ 1,715,391</u>	<u>\$ 1,376,772</u>

E. PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost and consists of the following at December 31,:

	2013	2012
Leasehold Improvements	\$ -	\$ 816,026
Furniture and equipment	<u>1,457,420</u>	<u>1,513,215</u>
	1,457,420	2,329,241
Less: accumulated depreciation and amortization	<u>(1,342,452)</u>	<u>(1,974,405)</u>
	<u>\$ 114,968</u>	<u>\$ 354,836</u>

F. LIFE INSURANCE ANNUITY LIABILITY

Upon the death of former HDMA President William Ford in 1986, the Organization received a \$500,000 death benefit from a life insurance policy. Mr. Ford's beneficiary is guaranteed annual payments based on the yield of ten-year treasury notes and will be paid for life. At December 31, 2013 and 2012, the present value of the estimated life insurance benefit amounted to \$31,461 and \$60,802, respectively. The present value of the estimated life insurance benefit is included in deferred compensation and annuities in the accompanying consolidated statements of financial position. Death benefits paid to Mr. Ford's beneficiary totaled \$9,100 and \$10,250 in 2013 and 2012, respectively.

Healthcare Distribution Management Association & Affiliates

Notes to the Consolidated Financial Statements

G. RETIREMENT PLANS

401(k) defined contribution plan: As of January 1, 2007, the Organization adopted a safe harbor 401(k) plan. All full-time employees may make deferrals into the plan beginning with the first of the month after three full months of service. The Organization will match employee deferrals dollar for dollar up to 6% of eligible compensation. In addition, the Organization made a discretionary 4% contribution for eligible employees during the years ended December 31, 2013 and 2012.

Deferred compensation plan: The Organization sponsors a section 457(b) deferred compensation plan for certain eligible executives. Under the section 457(b) plan, the Organization matches 50 percent of each eligible executive's pretax voluntary deferral into the plan. The balance of the liability and related assets for this plan were \$880,574 and \$622,943 at December 31, 2013 and 2012, respectively, and are presented as part of "prepaid expenses and other assets" and "deferred compensation and annuities" in the accompanying consolidated statements of financial position.

Executive deferred compensation plan: The Organization has a 457(f) deferred compensation plan for a key employee. Under the plan, the Organization contributes annually an amount specified in the Executive's employment agreement. During 2012, the vested balance was paid to the Executive as a condition of his employment agreement as stipulated in the plan. The liability related to this plan was \$322,500 at December 31, 2013 and is included in deferred compensation and annuities in the accompanying consolidated statements of financial position. There was no liability related to this plan at December 31, 2012.

Retirement expense under all of the above plans totaled \$821,857 and \$1,017,739 for the years ended December 31, 2013 and 2012, respectively.

H. TEMPORARILY RESTRICTED NET ASSETS

The Organization's temporarily restricted net assets activity is comprised of the following for the years ended December 31,:

	2013	2012
Revenue and support:		
Political action committee	\$ 77,748	\$ 71,405
Nexus Award	35,500	37,000
Research projects	575	5,386
	<u>113,823</u>	<u>113,791</u>
Net assets released from restriction:		
Satisfaction of program restrictions		
Political action committee	(75,000)	(75,000)
Nexus Award	(8,366)	(10,003)
Research projects	-	-
	<u>(83,366)</u>	<u>(85,003)</u>
Change in temporarily restricted net assets	<u>\$ 30,457</u>	<u>\$ 28,788</u>

Healthcare Distribution Management Association & Affiliates

Notes to the Consolidated Financial Statements

H. TEMPORARILY RESTRICTED NET ASSETS – CONTINUED

Temporarily restricted net assets are available for the following purposes as of December 31,:

	2013	2012
Research projects	\$ 147,694	\$ 147,119
Nexus Award	158,421	131,287
Political action committee	40,131	37,383
	<u>\$ 346,246</u>	<u>\$ 315,789</u>

I. OPERATING LEASE COMMITMENTS

In May 2005, the Organization began leasing office space in Arlington, Virginia, under a non-cancelable operating lease, which was set to expire in April 2016. As a rental incentive, the Organization received a tenant improvement allowance of \$657,040 from the landlord. The Organization was recognizing (as a reduction in rent expense) the benefit of this rental incentive on a straight-line basis over the lease term. In addition to the monthly base rent defined in the lease agreement, the Organization was also responsible for its pro-rata share of increases in operating expenses and real estate taxes.

In December 2013, the Organization signed a new lease for the same office space in Arlington, Virginia beginning January 2014 and expiring in December 2025. As a rental incentive, the Organization received a tenant improvement allowance of \$573,000 from the landlord. As of December 31, 2013, the Organization had not utilized any of this tenant allowance.

As a result of the anticipated utilization of the new tenant allowance in 2014, the Organization fully amortized the remaining net balance of the original leasehold improvements as of December 31, 2013 and considers them to be disposed as of that date. The remaining deferred rental incentive related to the original leasehold improvements was also written-off. As a result, during the year ended December 31, 2013, the Organization recognized a net loss of \$47,428 related to the disposal of these leasehold improvements.

The new lease also provides for a rental abatement period during 2016. Future minimum lease payments related to the new lease are anticipated to be as follows:

Year ending December 31,	Amount
2014	\$ 673,466
2015	673,466
2016	230,101
2017	707,560
2018	725,249
Thereafter	<u>5,610,612</u>
	<u>\$ 8,620,454</u>

Healthcare Distribution Management Association & Affiliates

Notes to the Consolidated Financial Statements

I. OPERATING LEASE COMMITMENTS - CONTINUED

Total rent expense for the years ended December 31, 2013 and 2012, was \$671,666 and \$613,523, respectively.

The Organization also leases several photocopiers under an operating lease. Future minimum payments under the photocopier lease are anticipated to approximate \$26,000 per year through 2014.

Commitments: The Organization has entered into several agreements with hotels providing room accommodations and services for its meetings and conferences at various dates in the future. Many of the agreements contain a clause whereby the Organization is liable for liquidated damages in the event of cancellation as calculated in accordance with the terms of the agreements.

Employment agreement: The Organization has entered into an employment agreement with its President that runs through May 2017. Under certain circumstances, the agreement stipulates that the Organization will be liable for severance and other payments.

K. RELATED PARTY TRANSACTIONS

HDMA has a wholly owned subsidiary, HDMA Service Corporation (the Corporation), that was organized to provide commercial services in the distribution and sale of healthcare products. During 2004, all activities of the Corporation were ceased and the Corporation's assets and liabilities were liquidated. The Corporation remained financially dormant during each of the years ended December 31, 2013 and 2012.

L. SPECIALTY & BIOTECH DISTRIBUTORS ASSOCIATION

During 2010, HDMA received a \$183,540 cash payment representing the net assets of the Specialty & Biotech Distributors Association (SBDA). SBDA legally dissolved during 2010. In exchange for the payment, HDMA created the Specialty & Biotech Distribution Council (the Council), which is charged with guiding HDMA's advocacy and industry relations efforts on issues of importance to specialty pharmaceutical distribution. The Council is not a separate legal entity, but functions as a component of HDMA. In addition to the creation of the Council, the members of SBDA who were not HDMA members were granted membership in HDMA.

The amount received from SBDA was recorded as a component of deferred revenue. No expenses related to this fund were incurred until 2012. During 2012, \$146,171 of Council-approved expense was incurred. As a result, \$146,171 of related revenue was recognized. During 2013, \$37,369 of Council-approved expense was incurred. As a result, \$37,369 of related revenue was recognized. Deferred revenue related to the SBDA funds was \$0 and \$37,369, at December 31, 2013 and 2012, respectively.

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Independent Auditor's Report on Consolidating Information

To the Board of Directors
Healthcare Distribution Management
Association & Affiliates

We have audited the consolidated financial statements of Healthcare Distribution Management Association & Affiliates as of and for the years ended December 31, 2013 and 2012, and have issued our report thereon dated February 28, 2014, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 14 and 15 is presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information on pages 14 and 15 is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Washington, DC
February 28, 2014

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Healthcare Distribution Management Association & Affiliates

Consolidating Statement of Financial Position

December 31, 2013

	HDMA	Center	HDMA PAC	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 1,998,354	\$ 530,716	\$ 40,131	\$ -	\$ 2,569,201
Accounts receivable	16,667	27,851			44,518
Intra-entity receivables	57,864	13,583		(71,447)	-
Investments	12,840,467	16,521			12,856,988
Prepaid expenses and other assets	1,337,350	182,037			1,519,387
Property and equipment	114,968				114,968
Total assets	\$ 16,365,670	\$ 770,708	\$ 40,131	\$ (71,447)	\$ 17,105,062
Liabilities and Net Assets					
Liabilities					
Accounts payable and accrued expenses	\$ 561,108	\$ 33,712	\$ -	\$ -	\$ 594,820
Intra-entity payables	13,583	57,864		(71,447)	-
Deferred revenue	1,332,609				1,332,609
Deferred compensation and annuities	1,052,498	182,037			1,234,535
Total liabilities	2,959,798	273,613	-	(71,447)	3,161,964
Net Assets					
Unrestricted	13,405,872	190,980			13,596,852
Temporarily restricted		306,115	40,131		346,246
Total net assets	13,405,872	497,095	40,131	-	13,943,098
Total liabilities and net assets	\$ 16,365,670	\$ 770,708	\$ 40,131	\$ (71,447)	\$ 17,105,062

Healthcare Distribution Management Association & Affiliates

Consolidating Statement of Activities

Year Ended December 31, 2013

	HDMA	Center	HDMA PAC	Eliminations	Consolidated
Unrestricted activities					
Revenue and support					
Membership dues and fees	\$ 7,829,229	\$ -	\$ -	\$ -	\$ 7,829,229
Meetings and education	3,803,776	45,040			3,848,816
Investment income	1,710,285	5,106			1,715,391
Sponsorships and publications	5,810	493,688			499,698
Contributions		727,876		(217,000)	510,876
Other	102,576				102,576
Net assets released from restriction		8,366	75,000		83,366
Total unrestricted revenue and support	13,451,676	1,280,276	75,000	(217,000)	14,589,952
Expenses					
Program services					
Government affairs	3,986,926		75,000		4,061,926
Meetings and education	1,923,458	272,505			2,195,963
Industry relations	1,605,318				1,605,318
Communications and marketing	690,887				690,887
Center research projects		467,188			467,188
Total program services	8,206,589	739,693	75,000	-	9,021,282
Supporting services					
General administration	4,587,978	281,819		(217,000)	4,652,797
Fund raising		132,244			132,244
Total supporting services	4,587,978	414,063	-	(217,000)	4,785,041
Total expenses	12,794,567	1,153,756	75,000	(217,000)	13,806,323
Change in unrestricted net assets	657,109	126,520	-	-	783,629
Temporarily restricted activities					
Contributions		36,075	77,748		113,823
Net assets released from restriction		(8,366)	(75,000)		(83,366)
Change in temporarily restricted net assets	-	27,709	2,748	-	30,457
Change in net assets	657,109	154,229	2,748	-	814,086
Net assets, January 1, 2013	12,748,763	342,666	37,383		13,129,012
Net assets, December 31, 2013	\$ 13,405,872	\$ 497,095	\$ 40,131	\$ -	\$ 13,943,098

Required Communications Letter**T A T E****TRYON***A Professional Corporation**Certified Public**Accountants
and Consultants*

February 28, 2014

To the Audit Committee
Healthcare Distribution Management
Association & Affiliates

We have audited the consolidated financial statements of Healthcare Distribution Management Association & Affiliates (the Organization) as of and for the year ended December 31, 2013, and have issued our report thereon dated February 28, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated December 12, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in the notes to the consolidated financial statements. No new accounting policies were adopted and the application of other existing policies was not changed during the year ended December 31, 2013. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the consolidated financial statements in the proper period.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the consolidated financial statements were:

Management's estimate of depreciation and amortization expense is based on assumptions regarding the useful lives of the underlying assets.

Management's estimate of the fair value of investments is based on data prepared by the Organization's investment managers.

Management's estimate of the allocation of indirect costs to the various functional departments is based primarily on data captured via staff timesheets.

We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the consolidated financial statements taken as a whole.

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To the Audit Committee
February 28, 2014
Page 2 of 3

Qualitative Aspects of Accounting Practices - Continued

Certain consolidated financial statement disclosures are particularly sensitive because of their significance to consolidated financial statement users. The most sensitive disclosures affecting the consolidated financial statements were:

The disclosure of credit risk and fluctuations in fair value in Note B discusses risks associated with the Organization's cash and investments.

The disclosure of the fair value measurements in Note C is based on estimated and published market values, which could fluctuate during the year.

The disclosure of temporarily restricted net assets in Note H includes information on the nature of the Organization's donor-restricted funds.

The disclosure of the Organization's commitments under operating leases shown in Note I indicates anticipated future cash outflows from these arrangements.

The consolidated financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We noted no "other than trivial" misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 28, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, in a way similar to obtaining a "second opinion" in certain situations. If a consultation involves application of an accounting principle to the Organization's consolidated financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Audit Committee
February 28, 2014
Page 3 of 3

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to our retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Consolidated Financial Statements

With respect to the other information accompanying the consolidated financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the consolidated financial statements. We compared and reconciled the other information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

This information is intended solely for the use of the Audit Committee and management of Healthcare Distribution Management Association & Affiliates and is not intended to be and should not be used by anyone other than these specified parties.

Tate & Tryon

Management Letter

T A T E



TRYON

A Professional Corporation

Certified Public

Accountants

and Consultants

February 28, 2014

To the Audit Committee
Healthcare Distribution Management Association & Affiliates

In planning and performing our audit of the consolidated financial statements of Healthcare Distribution Management Association & Affiliates (the Organization) as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

We would like to take this opportunity to communicate a best practice suggestion for the Organization's consideration. In addition, the last section of this letter provides an update on the current status of our prior year (2012) comment.

Management's written responses to the comments that follow have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

CURRENT YEAR COMMENT

Periodic Review of Master Vendor List (Best Practice Recommendation)

Observation: Several recent, well-publicized cases of fraud perpetrated on not-for-profit organizations involved the manipulation of payments to either fictitious or inactive vendors. One of the lessons learned from these cases is the importance of performing periodic reviews of an organization's master vendor list in order to identify unusual or suspicious activity.

Recommendation: To further augment its current system of internal controls, we recommend that the Organization conduct a periodic review of its vendor listing for incorrect or unusual items. This review should be performed by an individual independent of the accounts payable function. In addition, controls over the process for administering the vendor list should be periodically reviewed in order to minimize potentially exploitable weaknesses. It is important to note that this comment is not being made in response to a specific concern related to the Organization. Rather, it is intended as a general, not-for-profit organization best practice recommendation.

Management's response: We agree with the suggestion and will work to implement the review process during 2014.

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To the Audit Committee
February 28, 2014
Page 2 of 2

CURRENT STATUS OF PRIOR YEAR (2012) COMMENT

Generally Accepted Privacy Principles - (Best Practice Suggestion)

Observation: One of today's key business requirements is maintaining the privacy of personal information collected and held by an organization. As business systems and processes become increasingly complex and sophisticated, growing amounts of personal information are being collected. Because more data is being collected and held, most often in electronic format, personal information may be at risk to a variety of vulnerabilities, including loss, misuse, unauthorized access, and unauthorized disclosure. Those vulnerabilities raise concerns for organizations, governments, individuals, and the public in general.

With these issues in mind, the American Institute of Certified Public Accountants (AICPA) and the Canadian Institute of Chartered Accountants (CICA) developed Generally Accepted Privacy Principles (GAPP) to be used as an operational framework to help management address privacy in a manner that takes into consideration many local, national, or international requirements. The primary objective is to facilitate privacy compliance and effective privacy management. The secondary objective is to provide suitable criteria against which a privacy attestation engagement (usually referred to as a privacy audit) can be performed.

The privacy principles are essential to the proper protection and management of personal information. They are based on internationally known fair information practices included in many privacy laws and regulations of various jurisdictions around the world and recognized good privacy practices. For each of the 10 privacy principles, relevant, objective, complete, and measurable criteria have been specified to guide the development and evaluation of an entity's privacy policies, communications, and procedures and controls.

Recommendation: We recommended that the Organization review the GAPP requirements and assess that best practices are being followed with respect to safeguarding the privacy of personal information.

Management's response: We will review the GAPP requirements and assess that best practices are being followed with respect to safeguarding the privacy of personal information. We will document this review in writing before year-end.

Current status: The recommendation has been implemented.

CONCLUSION

This communication is intended solely for the information and use of management, the Audit Committee, and others within the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

Tate & Tryon



MEMORANDUM

TO: HDMA Executive Committee and Board of Directors

FROM: Ann Bittman, Executive Vice President and Chief Operating Officer

DATE: May 21, 2014

RE: **APRIL 2014 FINANCIAL UPDATE**

Total **Operating Revenue** through April 30th is \$11.49 million and Total **Operating Expenses** are \$4.13 million for a current **Net Surplus** of \$7.36 million.

HDMA's 2014 Operating Budget calls for a Net Deficit of \$96,925, attributable to the new International Pharmaceutical Distribution Conference (IPDC) in Beijing. After incorporating expected deviations from the original budget, as evaluated at our internal first-quarter budget review, the 2014 **Projected Operating Net Deficit has increased to \$304,149, due largely to lower Sponsorship Revenue and additional State Lobbying expenses, as further detailed below.**

REVENUE

Total Operating Revenue is projected to be \$89,766 (0.72%) below budget.

Dues Revenue is projected to be slightly ahead of budget by \$9,492 (0.1%) due to slight variations in dues paid compared to budgeted estimates.

Sponsorship Revenue is down significantly from budget by \$149,285 (12.1%) due to fewer sponsors for BLC and ABMM.

EXPENSES

Total Operating Expenses are projected to be \$117,458 (0.94%) over budget.

We are projecting spending lower than originally budgeted in:

- **Payroll** – A decrease of \$50,628 (0.74%) due to several position vacancies so far this year.
- **Food & Beverage** – A decrease of \$44,533 (5.2%) due to savings on the DMC and IPDC events.

We are projecting spending more than originally budgeted in:

- **Software Contracts & Licenses** – An increase of \$11,440 (9.1%) due to an upgraded web conferencing service, integration of the new website and member database and electronic signature software.
- **Legal Fees** – An increase of \$29,400 (5.4%) for additional fees related to traceability legislation implementation.

- **State Lobbyists** – An increase of \$80,500 (34.2%) because we added back \$60,000 for Ohio state lobbyists, that had been removed from budget to save money, and added \$20,500 for a Maryland lobbyist to work on proposed Maryland legislation to require 30-day notification of any change in availability of drug products or devices.
- **Other Advisors & Consultants** – An increase of \$37,400 (6.2%) due to an unbudgeted staff compensation analysis and a study on “Understanding Pharmacists Conversations.” We also expect to raise \$22,000 in sponsorship revenue for the second project.
- **Production** – An increase of \$18,872 (6.6%) as a result of enhancements to the stage and set design for DMC.
- **Meeting Room Rental** – This is a new budget item for \$14,000 for the Beijing meeting (IPDC), based on the hotel contract, which was not signed until after the 2014 budget was finalized.
- **Marketing Expenses** – an increase of \$13,500 for additional resources to promote the first HDMA IPDC.

In the **Reserve Fund**, we are currently far ahead of budgeted investment income (\$771,732 versus a budget of \$225,000) due to the portfolio’s excellent returns through April. We are on track with budgeted Reserve Fund spending.

BALANCE SHEET

Note that we are in a good cash position, with \$7.42 million in cash at April 30th.

In addition, HDMA’s **Reserve Fund** balance is \$13.18 million, which meets our target of maintaining one year’s operating expenses (\$12.52 million) in the Reserve Fund.

Attached are HDMA’s April 2014:

- Balance Sheet
- Operating Financial Statement
- Reserve Fund Financial Statement
- Consolidated Financial Statement - Operating and Reserve Fund

**Healthcare Distribution Management Association
Balance Sheet
April 30, 2014**

	<u>Current YTD Balance 4/30/14</u>	<u>Prior YTD Balance 4/30/13</u>	<u>Audited Balance 12/31/13</u>
Assets			
Cash & Cash Equivalents			
Checking Accounts	\$6,812,722	\$6,854,643	\$1,788,943
Short Term Investments	608,670	208,726	209,411
Total Cash & Cash Equivalents	7,421,392	7,063,369	1,998,354
Investments			
Annuities		604,197	646,542
Long Term Portfolio at FMV	13,180,542	12,055,792	12,192,926
Total Investments	13,180,542	12,659,989	12,839,468
Accounts Receivable			
General	538,920	467,342	7,500
Accrued Interest	6,339	15,293	6,487
The Center for Healthcare Supply Chain Research	134,976	230,227	57,864
Miscellaneous	296		2,680
Total Accounts Receivable	680,531	712,862	74,531
Other Assets			
Staff Travel/Expense Advance	5,933	7,110	3,599
Deposits	109,507	42,975	109,507
Prepaid Expenses	77,604	146,444	195,681
Investment-HDMA Service Corp	1,000	1,000	1,000
Other	1,045,991	562,741	1,028,562
Total Other Assets	1,240,035	760,270	1,338,349
Fixed Assets			
Furniture & Equipment	1,552,170	1,618,164	1,457,420
Office Improvements	9,120	816,026	
Accumulated Depreciation	(1,359,516)	(2,024,342)	(1,342,452)
Total Fixed Assets	201,774	409,848	114,968
Total Assets	<u>\$22,724,274</u>	<u>\$21,606,338</u>	<u>\$16,365,670</u>
Liabilities			
Accts. Payable & Accrued Expenses			
General	21,339	68,769	247,874
HDMA Service Corporation	1,000	1,000	1,000
Due to HDMA Center	18,345	35,895	13,583
Accrued Expenses	105,486	103,999	302,486
Payroll Withholding	14,439	14,331	9,748
Total Accounts Payable/Accrued Expense	160,609	223,994	574,691
Deferred Revenue			
Meetings	63,800	52,500	620,625
Membership Dues			701,943
LEF	8,052	8,052	8,052
General			1,990
Total Deferred Revenue	71,852	60,552	1,332,610
Other Liabilities			
JBG Improvement Allowance		179,192	
Deferred Compensation & 457 Plans	1,041,476	579,221	1,052,498
Total Other Liabilities	1,041,476	758,413	1,052,498
Total Liabilities	1,273,937	1,042,959	2,959,799
Fund Balance			
Beginning of Year	13,405,870	12,748,764	12,748,764
Net Income (Loss) YTD	8,044,467	7,814,615	657,107
Total Fund Balance	21,450,337	20,563,379	13,405,871
Total Liabilities and Fund Balance	<u>\$22,724,274</u>	<u>\$21,606,338</u>	<u>\$16,365,670</u>

Healthcare Distribution Management Association
Operating Budget
For the Four Months Ended April 30, 2014

	2014 YTD ACTUAL	2014 ANNUAL BUDGET	2014 PROJECTED ACTUAL	VARIANCE PROJECTED TO BUDGET	2013 AUDITED ACTUAL
HDMA REVENUE					
Membership					
Distributors	\$4,792,140	\$4,789,950	\$4,792,140	\$2,190	\$4,806,950
Manufacturers	2,664,407	2,648,786	2,659,838	11,052	2,627,121
Manufacturers - HBW	8,850	8,700	5,700	(3,000)	8,700
Allied	359,775	351,875	351,400	(475)	358,750
International	5,225	5,500	5,225	(275)	5,958
Entrance & Late Fees	17,205	15,000	15,000		21,750
Total	<u>7,847,602</u>	<u>7,819,811</u>	<u>7,829,303</u>	<u>9,492</u>	<u>7,829,229</u>
Meeting Fees					
Registration Fees	2,430,840	3,081,963	3,056,688	(25,275)	2,541,002
Exhibit Fees	237,750	209,000	237,750	28,750	195,625
Total	<u>2,668,590</u>	<u>3,290,963</u>	<u>3,294,438</u>	<u>3,475</u>	<u>2,736,627</u>
Publications	1,740	15,000	15,000		5,810
Sponsorships	871,215	1,234,000	1,084,715	(149,285)	1,067,150
Investment Income					
Interest and Dividends	673	5,000	5,000		5,596
Total	<u>673</u>	<u>5,000</u>	<u>5,000</u>		<u>5,596</u>
Other Income					
Advertising	6,500		6,500	6,500	
SBDC Reserve Funding					37,369
Gain on Sale of Assets					50
Miscellaneous Gain - Deferred Com	32,000		32,000	32,000	
Miscellaneous	60,027	60,350	68,402	8,052	65,157
Total	<u>98,527</u>	<u>60,350</u>	<u>106,902</u>	<u>46,552</u>	<u>102,576</u>
Total Revenue	<u><u>11,488,347</u></u>	<u><u>12,425,124</u></u>	<u><u>12,335,358</u></u>	<u><u>(89,766)</u></u>	<u><u>11,746,988</u></u>
HDMA EXPENSES					
Payroll & Benefits					
Payroll & Benefits	2,221,480	6,801,920	6,751,292	(50,628)	6,643,611
Training	6,041	25,105	25,105		19,255
Temps		1,470	1,470		556
Total	<u>2,227,521</u>	<u>6,828,495</u>	<u>6,777,867</u>	<u>(50,628)</u>	<u>6,663,422</u>
Travel & Entertainment	115,384	496,482	500,328	3,846	350,498
Office Expense					
Depreciation					138,722
Dues & Memberships	64,202	127,859	128,859	1,000	97,991
Telephone, Internet & Fax	19,331	86,309	86,254	(55)	86,417
Supplies	23,916	69,405	69,614	209	58,285
Copier	7,612	28,360	28,360		25,586
Postage & Delivery	14,473	37,875	34,713	(3,162)	28,415
Printing Expense	31,540	88,950	85,508	(3,442)	55,589
Corporate Taxes	2,027	23,535	23,535		21,618
Insurance	40,300	42,450	45,222	2,772	34,015
Interest Expense	539	(15,000)	(539)	14,461	(20,241)
Bank & Credit Card Fees	52,103	100,450	100,450		82,763

Healthcare Distribution Management Association
Operating Budget
For the Four Months Ended April 30, 2014

	2014 YTD ACTUAL	2014 ANNUAL BUDGET	2014 PROJECTED ACTUAL	VARIANCE PROJECTED TO BUDGET	2013 AUDITED ACTUAL
Publications & Subscriptions	\$20,973	\$44,145	\$42,720	(\$1,425)	\$35,855
Rent	220,650	679,080	679,080		673,728
Maintenance	3,957	12,374	12,374		11,221
Software Contracts & Licenses	69,820	125,200	136,640	11,440	103,904
Loss on Disposal of Assets					1,019
Other Expense	2,207	7,090	7,090		15,241
Total	573,650	1,458,082	1,479,880	21,798	1,450,128
Professional Fees					
Audit/Accounting Fees	19,478	25,777	25,777		25,027
Legal Fees	146,340	549,410	578,810	29,400	597,008
Monitoring Services	64,146	85,900	86,800	900	86,540
System Support	1,650	43,500	43,500		67,121
Publications Design	850	20,850	20,850		16,048
State Lobbyists Fees	117,417	235,400	315,900	80,500	372,148
Human Resources	7,468	16,100	16,100		26,317
Other Advisors & Consultants	230,454	601,700	639,100	37,400	627,717
Total	587,803	1,578,637	1,726,837	148,200	1,817,926
Overhead Allocations	(50,000)	(150,000)	(150,000)		(150,000)
Meeting Expense					
Decorator/Decor	10,661	68,000	65,934	(2,066)	59,244
Production	93,872	287,000	305,872	18,872	194,211
Entertainment	4,300	25,000	27,050	2,050	13,013
Sports/Tours	270	2,000	3,770	1,770	1,338
Electricity		5,650	5,400	(250)	117
Internet Cafe	761	7,500	6,761	(739)	1,434
Internet Access Onsite		7,000	5,500	(1,500)	2,702
Room Credits & Rebates	(19,793)	(62,653)	(66,619)	(3,966)	(83,543)
Security	2,795	16,550	14,545	(2,005)	9,638
Signage	4,478	23,700	22,178	(1,522)	12,142
Speakers	192,419	454,250	456,169	1,919	340,300
Destination Management Company		51,900	51,900		
Registration Management	6,840	25,185	25,185		
Interpreter Services	3,955	35,569	33,955	(1,614)	2,378
Gratuities	800	4,700	4,700		3,000
Audio Visual	17,734	65,100	66,198	1,098	50,996
Meeting Room Rental		1,200	15,200	14,000	
General Meeting Expense	77,185	2,900	2,900		600
Food & Beverage	150,204	857,056	812,523	(44,533)	629,754
Sponsored Items	883	108,700	106,383	(2,317)	76,591
Exhibits	21,133	123,021	124,113	1,092	115,450
Gifts & Awards	17,419	47,475	47,565	90	37,794
Total	585,916	2,156,803	2,137,182	(19,621)	1,467,159
Other					
Photography	2,144	17,500	15,863	(1,637)	10,220
Sponsorships & Events	45,000	60,500	60,500		62,500
Charitable Contributions	6,100	5,500	7,500	2,000	7,104
Industry/Issue Awareness Ads		2,000	2,000		17,000
Marketing Expenses	12,659	38,050	51,550	13,500	15,031
Media Monitoring	25,042	30,000	30,000		18,579
Total	90,945	153,550	167,413	13,863	130,434
Total Expense	4,131,219	12,522,049	12,639,507	117,458	11,729,567
Excess Income/Expense	\$7,357,128	(\$96,925)	(\$304,149)	(\$207,224)	\$17,421

Healthcare Distribution Management Association
Reserve Fund
For the Four Months Ended April 30, 2014

	<u>2014 YTD ACTUAL</u>	<u>2014 ANNUAL BUDGET</u>	<u>2014 PROJECTED ACTUAL</u>	<u>VARIANCE PROJECTED TO BUDGET</u>	<u>2013 AUDITED ACTUAL</u>
HDMA REVENUE					
Investment Income					
Interest and Dividends	\$59,306	\$225,000	\$225,000		\$340,899
Realized, Unrealized Gains (Loss)	<u>712,426</u>				<u>1,363,790</u>
Total	771,732	225,000	225,000		1,704,689
 Total Revenue	 <u>771,732</u>	 <u>225,000</u>	 <u>225,000</u>	 <u></u>	 <u>1,704,689</u>
HDMA EXPENSES					
Payroll & Benefits					
Payroll & Benefits		322,000	322,000		322,500
Total		322,000	322,000		322,500
 Office Expense					
Depreciation	<u>17,064</u>	<u>112,000</u>	<u>112,000</u>		
Total	17,064	112,000	112,000		
Professional Fees					
Investment	30,805	75,000	75,000		67,737
Other Advisors & Consultants	<u>418</u>				<u>457,764</u>
Total	31,223	75,000	75,000		525,501
 Other					
Contribution to HDMA Center	<u>36,110</u>	<u>108,334</u>	<u>108,334</u>		<u>217,000</u>
Total	36,110	108,334	108,334		217,000
Total Expense	<u>84,397</u>	<u>617,334</u>	<u>617,334</u>		<u>1,065,001</u>
Excess Income/Expense	<u>687,335</u>	<u>(392,334)</u>	<u>(392,334)</u>		<u>639,688</u>

Healthcare Distribution Management Association
Consolidated
For the Four Months Ended April 30, 2014

	2014 YTD ACTUAL	2014 ANNUAL BUDGET	2014 PROJECTED ACTUAL	VARIANCE PROJECTED TO BUDGET	2013 AUDITED ACTUAL
HDMA REVENUE					
Membership					
Distributors	\$4,792,140	\$4,789,950	\$4,792,140	\$2,190	\$4,806,950
Manufacturers	2,664,407	2,648,786	2,659,838	11,052	2,627,121
Manufacturers - HBW	8,850	8,700	5,700	(3,000)	8,700
Allied	359,775	351,875	351,400	(475)	358,750
International	5,225	5,500	5,225	(275)	5,958
Entrance & Late Fees	17,205	15,000	15,000		21,750
Total	7,847,602	7,819,811	7,829,303	9,492	7,829,229
Meeting Fees					
Registration Fees	2,430,840	3,081,963	3,056,688	(25,275)	2,541,002
Exhibit Fees	237,750	209,000	237,750	28,750	195,625
Total	2,668,590	3,290,963	3,294,438	3,475	2,736,627
Publications	1,740	15,000	15,000		5,810
Sponsorships	871,215	1,234,000	1,084,715	(149,285)	1,067,150
Investment Income					
Interest and Dividends	59,979	230,000	230,000		346,494
Realized, Unrealized Gains (Loss)	712,426				1,363,790
Total	772,405	230,000	230,000		1,710,284
Other Income					
Advertising	6,500		6,500	6,500	
SBDC Reserve Funding					37,369
Gain on Sale of Assets					50
Miscellaneous Gain - Deferred Com	32,000		32,000	32,000	
Miscellaneous	60,027	60,350	68,402	8,052	65,157
Total	98,527	60,350	106,902	46,552	102,576
Total Revenue	<u>12,260,079</u>	<u>12,650,124</u>	<u>12,560,358</u>	<u>(89,766)</u>	<u>13,451,676</u>
HDMA EXPENSES					
Payroll & Benefits					
Payroll & Benefits	2,221,480	7,123,920	7,073,292	(50,628)	6,966,111
Training	6,041	25,105	25,105		19,255
Temps		1,470	1,470		556
Total	2,227,521	7,150,495	7,099,867	(50,628)	6,985,922
Travel & Entertainment	115,384	496,482	500,328	3,846	350,498
Office Expense					
Depreciation	17,064	112,000	112,000		138,722
Dues & Memberships	64,202	127,859	128,859	1,000	97,991
Telephone, Internet & Fax	19,331	86,309	86,254	(55)	86,417
Supplies	23,916	69,405	69,614	209	58,285
Copier	7,612	28,360	28,360		25,586
Postage & Delivery	14,473	37,875	34,713	(3,162)	28,415
Printing Expense	31,540	88,950	85,508	(3,442)	55,589
Corporate Taxes	2,027	23,535	23,535		21,618
Insurance	40,300	42,450	45,222	2,772	34,015
Interest Expense	539	(15,000)	(539)	14,461	(20,241)

Healthcare Distribution Management Association
Consolidated
For the Four Months Ended April 30, 2014

	2014 YTD ACTUAL	2014 ANNUAL BUDGET	2014 PROJECTED ACTUAL	VARIANCE PROJECTED TO BUDGET	2013 AUDITED ACTUAL
Bank & Credit Card Fees	\$52,103	\$100,450	\$100,450		\$82,763
Publications & Subscriptions	20,973	44,145	42,720	(1,425)	35,855
Rent	220,650	679,080	679,080		673,728
Maintenance	3,957	12,374	12,374		11,221
Software Contracts & Licenses	69,820	125,200	136,640	11,440	103,904
Loss on Disposal of Assets					1,019
Other Expense	2,207	7,090	7,090		15,241
Total	590,714	1,570,082	1,591,880	21,798	1,450,128
Professional Fees					
Audit/Accounting Fees	19,478	25,777	25,777		25,027
Investment	30,805	75,000	75,000		67,737
Legal Fees	146,340	549,410	578,810	29,400	597,008
Monitoring Services	64,146	85,900	86,800	900	86,540
System Support	1,650	43,500	43,500		67,121
Publications Design	850	20,850	20,850		16,048
State Lobbyists Fees	117,417	235,400	315,900	80,500	372,148
Human Resources	7,468	16,100	16,100		26,317
Other Advisors & Consultants	230,872	601,700	639,100	37,400	1,085,481
Total	619,026	1,653,637	1,801,837	148,200	2,343,427
Overhead Allocations	(50,000)	(150,000)	(150,000)		(150,000)
Meeting Expense					
Decorator/Decor	10,661	68,000	65,934	(2,066)	59,244
Production	93,872	287,000	305,872	18,872	194,211
Entertainment	4,300	25,000	27,050	2,050	13,013
Sports/Tours	270	2,000	3,770	1,770	1,338
Electricity		5,650	5,400	(250)	117
Internet Cafe	761	7,500	6,761	(739)	1,434
Internet Access Onsite		7,000	5,500	(1,500)	2,702
Room Credits & Rebates	(19,793)	(62,653)	(66,619)	(3,966)	(83,543)
Security	2,795	16,550	14,545	(2,005)	9,638
Signage	4,478	23,700	22,178	(1,522)	12,142
Speakers	192,419	454,250	456,169	1,919	340,300
Destination Management Company		51,900	51,900		
Registration Management	6,840	25,185	25,185		
Interpreter Services	3,955	35,569	33,955	(1,614)	2,378
Gratuities	800	4,700	4,700		3,000
Audio Visual	17,734	65,100	66,198	1,098	50,996
Meeting Room Rental		1,200	15,200	14,000	
General Meeting Expense	77,185	2,900	2,900		600
Food & Beverage	150,204	857,056	812,523	(44,533)	629,754
Sponsored Items	883	108,700	106,383	(2,317)	76,591
Exhibits	21,133	123,021	124,113	1,092	115,450
Gifts & Awards	17,419	47,475	47,565	90	37,794
Total	585,916	2,156,803	2,137,182	(19,621)	1,467,159
Other					
Photography	2,144	17,500	15,863	(1,637)	10,220
Sponsorships & Events	45,000	60,500	60,500		62,500
Charitable Contributions	6,100	5,500	7,500	2,000	7,104
Industry/Issue Awareness Ads		2,000	2,000		17,000
Marketing Expenses	12,659	38,050	51,550	13,500	15,031
Media Monitoring	25,042	30,000	30,000		18,579
Contribution to HDMA Center	36,110	108,334	108,334		217,000
Total	127,055	261,884	275,747	13,863	347,434
Total Expense	\$4,215,616	\$13,139,383	\$13,256,841	\$117,458	\$12,794,568
Excess Income/Expense	8,044,463	(489,259)	(696,483)	(207,224)	657,108



MEMORANDUM

TO: HDMA Board of Directors

FROM: Ann Bittman, Executive Vice President and Chief Operating Officer

DATE: May 20, 2014

RE: **BOARD CODE OF ETHICS AND BUSINESS CONDUCT**

Following this memo is a copy of HDMA's Code of Ethics and Business Conduct Policy, including the Code of Ethical Conduct Questionnaire and Certification. This policy was approved by the Board of Directors in 2008 and Board members and HDMA staff are asked to review these documents and sign the certification form each year.

ACTION REQUESTED

Please return your signed certification form today or via email to Ann Bittman at Abittman@hdmanet.org or via regular mail to HDMA, 901 North Glebe Road, Suite 1000, Arlington, VA 22203 by June 27th.

HEALTHCARE DISTRIBUTION MANAGEMENT ASSOCIATION

CODE OF ETHICS AND BUSINESS CONDUCT

OVERVIEW

This is the Healthcare Distribution Management Association (HDMA) Code of Ethics and Business Conduct. It provides the basic standards of conduct to be applied to every aspect of our business dealings.

The philosophy behind the Code can be summarized as follows:

- HDMA employees and Board members shall behave at all times with the highest standards of honesty, integrity and trustworthiness, avoiding even the appearance of impropriety.
- Each HDMA employee or Board member has a duty to ensure that all of HDMA's business, ethical and operating standards are met.
- HDMA employees and Board members shall faithfully abide by the articles of incorporation, bylaws and written policies of HDMA.
- HDMA maintains a "zero tolerance" philosophy concerning violations of law, its prohibition against unlawful harassment or discrimination or any unethical or unprofessional conduct when acting on behalf of HDMA.
- HDMA employees and Board members are required to report to HDMA any violation of law, or any unprofessional conduct related to HDMA's business. No one will be subject to reprisal for reporting in good faith any such act of apparent illegal, unprofessional, unethical, harassing or discriminating conduct to the Compliance Officer. Any employee or Board member who retaliates against another employee or Board member who has reported a violation in good faith is subject to discipline up to and including termination of employment.
- This Code is intended to address serious matters that could harm HDMA's business or matters that violate laws and regulations related to HDMA's business. Matters involving employee working relationships should be addressed with your supervisor or the Director of Human Resources and Administration. In most cases, an employee's supervisor is in the best position to address an area of concern. However, if you are not comfortable speaking with your supervisor or you are not satisfied with your supervisor's response, you are encouraged to speak with the Director of Human Resources and Administration or anyone in management whom you are comfortable approaching.

PART I APPLICABILITY OF CODE

This Code applies to all employees and Board members of HDMA.

PART II COMPLIANCE OFFICER

To facilitate implementation of this Code and HDMA's business ethics program, HDMA's President and CEO will appoint a senior staff member as the Compliance Officer. The Association's Compliance Officer is responsible for investigating and resolving all reported complaints and allegations concerning violations of the Code and, at his or her discretion, shall advise the President & CEO and/or the Audit Committee. The Compliance Officer has direct access to the Audit Committee of the Board of Directors and is required to report to the Audit Committee at least annually on compliance activity. The Compliance Officer shall also:

- Consider appropriate standards of conduct and recommend modification and updates to this Code, as needed;
- Oversee implementation of this Code;
- Require that all current employees and Board members, and all new hires and new Board members receive a copy of the current Code and are given appropriate training;
- Respond to questions and concerns from HDMA's employees and Board members;
- Supervise investigation or resolution of alleged violations of law, regulations or this Code related to HDMA business.

HDMA's Compliance Officer is Ann Bittman, Executive Vice President & COO – (703) 885-0268.

Accounting and Auditing Matters

The Audit Committee of the Board of Directors shall address all reported concerns or complaints regarding corporate accounting practices, internal controls or auditing. The Compliance Officer shall immediately notify the Audit Committee of any such complaint and work with the Committee until the matter is resolved.

Acting in Good Faith

Anyone filing a complaint concerning a violation or suspected violation of the Code must be acting in good faith and in the belief that the information disclosed indicates a violation of the Code. Any allegations that prove not to be substantiated and which prove to have been made maliciously or knowingly to be false will be viewed as a serious disciplinary offense.

Confidentiality

Violations or suspected violations may be submitted on a confidential basis by the complainant or may be submitted anonymously. Reports of violations or suspected violations will be kept confidential to the extent possible, consistent with the need to conduct an adequate investigation.

Handling of Reported Violations

The Compliance Officer will notify the sender and acknowledge receipt of the reported violation or suspected violation within five (5) business days. All reports will be promptly investigated and appropriate corrective actions will be taken if warranted by the investigation. The individual reporting a violation or suspected violation may not be notified of the result of the investigation or corrective action taken, if any, if privacy or confidentiality concerns dictate otherwise.

PART III GENERAL PRINCIPLES

1. HDMA conducts its business with the highest standards of trustworthiness, honesty and integrity. Its employees and Board members shall comply with all governing laws, regulations and HDMA written policies related to HDMA's business. HDMA does not tolerate any conduct which violates this principle.
2. HDMA and its employees and Board members shall not take, recommend, or cause any action to be taken on behalf of HDMA which is known or reasonably could be believed to be in violation of any law or regulation or HDMA's articles of incorporation, bylaws, and written policies.
3. In all business dealings on behalf of HDMA, HDMA employees and Board members shall not provide, or offer to provide, any gratuity, favor or other benefit to government, suppliers or Board members or other persons which could improperly influence, or reasonably be interpreted as improperly influencing, their decisions or activities.

4. HDMA employees and Board members must make every effort to avoid being placed in a position in which an actual or apparent conflict of interest exists when acting on behalf of HDMA. For example, HDMA employees and Board members shall not accept gratuities, favors, or other valuable benefits which could improperly influence - or reasonably be interpreted as improperly influencing - sound business decisions.
5. HDMA employees and Board members shall treat others respectfully and professionally, free of unlawful harassment, discrimination or unprofessional behavior.

PART IV CONFLICTS OF INTEREST

(See attached HDMA Conflict of Interest Policy)

PART V COMPLIANCE AND DISCIPLINARY ACTION

1. General Principles
HDMA will not tolerate any violation of this Code. This includes violations of laws or regulations referred to herein, violations of laws or regulations otherwise applicable to the activities of HDMA or its employees and Board members, and violations of other ethical principles stated herein.
2. Certifications
HDMA employees and Board members periodically will be requested to execute a statement that they are aware of and in compliance with this Code. All employees and Board members will be asked to execute a statement confirming they are aware of and understand this Code; that they are in compliance with and will comply with the Code; and that they will report violations of applicable law, regulation or the Code to their supervisors or to the HDMA Compliance Officer.
3. Disciplinary Action for Violations
Failure to comply with this Code may result in discipline up to and including termination (for employees) or removal (for Directors, subject to HDMA's bylaws procedures for removal of Directors for cause), referral for criminal prosecution (if appropriate) and reimbursement to HDMA for any losses or damages resulting from the violation. Disciplinary action may be taken against:
 - Any HDMA employee or Board member who authorizes or participates directly in actions which are a violation of this Code;

- Any HDMA employee or Board member who has failed to report a violation or knowingly withheld relevant and material information concerning a violation of this Code;
- The violator's supervisor(s), to the extent that the circumstances of the violation reflect inadequate supervision or a lack of diligence; or
- Anyone who attempts to retaliate, directly or indirectly, against any employee who in good faith reports a violation of this policy, or who encourages others to do so.

PART VI INTERPRETATION OF CODE AND REPORTS OF VIOLATIONS

1. Interpretation of Code

Questions about this or any other HDMA policy may be addressed to the Compliance Officer.

2. Reports of Violations

HDMA employees and Board members are required to report any violation or apparent violation of this Code to their supervisor(s), or to the Compliance Officer, who will take appropriate action to resolve any report. There will be no reprisal directed toward employees who in good faith disclose suspected wrongdoing.

If an HDMA employee or Board member who reports a violation or apparent violation is directly or indirectly involved in the incident, the fact that he/she reported the incident will be given consideration in any resultant disciplinary action.

The Compliance Officer should be contacted if any HDMA employee or Board member who reported a violation or apparent violation wishes to learn or discuss the result of an investigation into the matter; however, the disclosure of the result of the Compliance Officer's investigation may be limited by privacy or confidentiality concerns.

Violations may also be reported in any of the following ways:

- Directly to the in-house Compliance Officer
- Directly to the Director, HR
- Anonymously through the toll free Whistleblower Hotline: 800-398-1496
- Anonymously through e-mail to: reports@lighthouse-services.com
- Anonymously through the Web: lighthouse-services.com (click on report incident link).
 - Username: HDMA and Password: 901Glebe

CODE OF ETHICAL CONDUCT
QUESTIONNAIRE AND CERTIFICATION

The following questions pertain to HDMA and its subsidiaries and divisions (collectively HDMA):

	<u>Yes*</u>	<u>No</u>
1. Have you read HDMA's Code of Ethics and Business Conduct and are you adhering to the policies set forth therein?	_____	_____
2. Have you or do you know of any employee or Board member who has offered to pay or otherwise compensate any government official or employee for services performed or to be performed on behalf of HDMA?	_____	_____
3. Other than gifts of nominal value provided in the regular course of business (e.g., annual holiday gifts to all HDMA Board members), have you or do you know of any other employee or Board member who has provided or received any enticement, gift, gratuity, payment, and/or service to or from any member or supplier of HDMA related to HDMA's business?	_____	_____
4. Have you or do you know of any other employee or Board member who has supplied confidential HDMA information to someone who should not have received that information?	_____	_____
5. Do you have or do you know of any other employee or Board member who has any interest (other than ownership of a non-significant number of shares of stock in a publicly-held company) in any entity with which HDMA does business or which competes with HDMA?	_____	_____
6. Have you or do you know of any other employee or Board member who has used HDMA assets, influence or confidential information for personal purposes without adequately reimbursing HDMA?	_____	_____
7. Have you or do you know of any other employee or Board member who has made misleading entries to HDMA's records or documents submitted by HDMA to any member or government entity?	_____	_____
8. Have you or do you know of any other employee or Board member who has failed to comply with any law or regulation applicable to HDMA?	_____	_____
9. Do you know of any instance of unlawful harassment, discrimination or unethical behavior involving HDMA that was not reported?	_____	_____

10. Have you reported a violation of this policy, but did not receive a satisfactory response? _____

* If you have answered "Yes" for any of Questions 2 through 10, please explain your answer in the space provided below.

SIGNATURE _____

NAME (PLEASE PRINT) _____

POSITION: _____

PHONE NUMBER: _____

DATE: _____

THIS COMPLETED FORM SHOULD BE RETURNED TO THE COMPLIANCE OFFICER, ANN BITTMAN.

EXPLANATION:

**Approved by HDMA Board of Directors
May 8, 2008**

HEALTHCARE DISTRIBUTION MANAGEMENT ASSOCIATION
CONFLICT OF INTEREST POLICY

(As adopted by the *HDMA Board of Directors* November 2001)

It is the obligation of all employees, officers, and members of the Board of Directors of Healthcare Distribution Management Association (**HDMA**, or the Association), when acting on behalf of the Association, to comply with all applicable federal, state, and local laws, to uphold the goals of the Association, and to comport themselves in accordance with the highest standards of ethical business conduct. In furtherance of these objectives, the Board of Directors of the Association has adopted the following policy in order to avoid or minimize possible conflicts between the personal interests of the persons subject to the policy and the interests of the Association.

Preamble

The purpose of the policy is to ensure that decisions about **HDMA's** operations and the use or disposition of **HDMA's** assets are made solely in terms of the benefits to the Association and are not influenced by the possibility of private profit or other personal benefit accruing to the persons subject to this policy who take part in the decision. In addition to actual conflicts of interest, all persons subject to the policy are obliged to avoid actions that could be perceived or interpreted as being in conflict with the Association's interest.

Conflicts of interest may occur when the Association enters into transactions with nonprofit associations, for-profit enterprises or individuals. To avoid actual, potential, or even the appearance of conflicts of interests, persons subject to the policy should disclose any connection or relationship with associations, enterprises or individuals doing business with the Association and refrain from participating in decisions affecting transactions between the Association and the other association, enterprise or individual. The mere existence of a connection or relationship shall not prevent a transaction from taking place, however, so long as: (i) the relationship is disclosed; (ii) disinterested individuals make the necessary decisions; and (iii) the terms of the transaction are fair and reasonably comparable to those available in other commercial transactions where the parties are entirely independent of one another.

Policy

Employees and volunteer senior officers of **HDMA** have a duty to be free from the influence of any conflicting interest when they represent the Association or make recommendations with respect to dealings with third parties. They are expected to deal with suppliers, members, member companies, and all others doing business with the Association on the sole basis of what is in the best interest of the Association without favor or preference to third parties based on personal considerations. In particular:

- a. Employees and volunteer senior officers who deal with parties doing or seeking to do business with the Association - or who make recommendations with respect to such dealings or pass judgment upon them - shall not own any interest in or have any personal agreement or understanding with such third parties that might tend to influence the decision of the employee(s) or volunteer senior officer(s) with respect to the business of the Association, unless expressly authorized in writing after the interest, agreement, or understanding has been disclosed.

- b. No covered employee or volunteer senior officer shall seek or accept, directly or indirectly, any personal payments, loans or services, excessive entertainment, or travel or gifts of more than nominal value from any individual or business concern doing or seeking to do business with the Association. (This provision shall not apply, however, to prevent employees or senior officers from accepting or making use of hotel rooms or entertainment provided by a hotel on a complimentary or upgraded basis in connection with an Association conference, seminar, or school where such room or entertainment is part of the negotiations for or the overall contract with the hotel or conference facility. Such use facilitates the conduct of Association business and thereby inures to the benefit of the Association).
- c. No covered employee or volunteer senior officer shall do business with a close relative on behalf of the Association unless expressly authorized in writing after the relationship has been disclosed.

The requirement of freedom from conflicting interests extends to situations involving the close relatives of all employees and volunteer senior officers. Close relatives normally include spouse, parents, children, and brothers and sisters. Employees and volunteer senior officers shall take reasonable steps to become informed of conflicting interests involving close relatives. For such known actual or potential conflicts of interests involving close relatives, employees and volunteer senior officers shall, prior to the Association's doing business with associations, enterprises or individuals with which the close relatives are affiliated either as employees or as holders of beneficial interests in excess of five percent of the total beneficial interests, disclose in writing such conflicting interest, subject to the paragraph immediately following.

With respect to all employees but the President, the President of **HDMA** has the ultimate authority to determine what remedial steps should be taken in situations involving an actual or potential conflict of interest. With respect to the President and the volunteer senior officers other than the Chairman, the Chairman of **HDMA** has the ultimate authority to determine what remedial steps should be taken in situations involving an actual or potential conflict of interest. With respect to the Chairman, the remaining members of the Executive Committee of the Association have the ultimate authority to determine what remedial steps should be taken in situations involving an actual or potential conflict of interest.

As used in this policy, volunteer senior officers include the persons holding the offices of Chair and Vice Chair, as set forth in the Association's By-Laws, Article V, Section 3.

References to **HDMA** shall, where appropriate in light of the context of the language and purposes of this policy, be interpreted to include any of **HDMA** and the **Center for Healthcare Supply Chain Research**, both of which are District of Columbia corporations.



MEMORANDUM

TO: HDMA Board of Directors

FROM: Ann Bittman

DATE: May 22, 2014

RE: **HDMA Reserve Fund Investment Performance Update - First Quarter of 2014**

Overview

HDMA retains Morgan Stanley Smith Barney to serve as the custodian and consultant for its Reserve Fund portfolio. Our lead advisor at Morgan Stanley is Trip McLaughlin, Senior Vice President.

HDMA has an Investment Advisory Committee consisting of three members of the Board of Directors. The current committee members are:

- Ted Scherr, Dakota Drug Company, *Chairman*
- Lou Ferraro, Henry Schein, Inc.
- Terrance Haas, Harvard Drug Group

The committee meets, via conference call, at least quarterly, with Mr. McLaughlin, John Gray and myself, to review the portfolio's investment performance and asset allocation and to make decisions regarding changes to the investments, based on advice from Morgan Stanley Smith Barney. The committee's most recent call was on May 5th, during which they reviewed the portfolio's first quarter performance. A portion of the first quarter 2014 investment reports is included behind this memo.

HDMA's investment policy calls for a target reserve fund level of one year's operating expenses. The balance of the HDMA portfolio assets as of April 30th was \$13.18 million and the 2014 budgeted operating expenses are \$12.52 million. Therefore, we are in compliance with that target balance.

Portfolio Performance Summary

HDMA's composite performance for the first quarter of 2014 was 1.09% and 9.84% for the previous twelve-month period, versus a composite benchmark of 1.12% for the quarter and 10.51% for the last twelve months. So, the portfolio is performing well and tracking to its benchmarks.

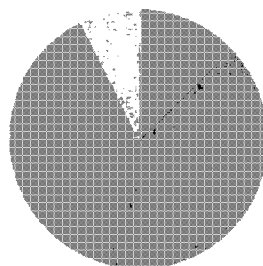
On the May 5th committee call no changes were made to the funds held in the portfolio. The next quarterly committee call will take place at the end of July, during which a review of the second quarter investment performance will take place.



Asset Allocation and Performance *Period End March 31, 2014*

Asset Allocation

● Cash	12.70
● U.S. Stocks	41.26
● Foreign Stocks	21.10
● Bonds	17.56
● Other	7.80
Total	100.42



Style Box Diversification

Equity Investment Style %

15	22	34	Large Size
7	7	6	Med
2	4	1	Small

Value Core Growth
Valuation

% Investment Style Not Classified

0.00%

Fixed-Income Investment Style %

3	0	0	High Credit Quality
60	0	0	Med
19	14	0	Low

Ltd Mod Ext
Interest Rate Sensitivity

% Investment Style Not Classified

5.00%

	Value	Percent	Tactical Target		Current Quarter	Year to Date	1 Year	3 Year	Since Inception 06/11/07
US Equities	\$ 5,208,164.19	42.24%	40.00%	Combined Equity Performance	0.95%	0.95%	13.38%	7.52%	0.02%
International Equities	\$ 2,584,469.99	20.96%	20.00%						
Fixed Income	\$ 2,310,129.17	18.74%	22.50%	Fixed Income Performance	1.40%	1.40%	2.97%	4.29%	5.04%
Alternatives	\$ 1,465,013.41	11.88%	10.00%						
Cash Management	\$ 751,529.54	6.10%	5.00%						
Accrued interest	\$ 9,226.84	0.07%		Benchmark Performance	1.12%	1.12%	10.51%	7.37%	5.00%
Total Market Value	\$ 12,328,533.14	100.00%		Consolidated Performance	1.09%	1.09%	9.84%	6.68%	2.68%

Morgan Stanley



Composite Performance Report *Period End March 31, 2014*

Change in Portfolio						
	Current Month(\$) 02/28/14 - 03/31/14	Current Quarter(\$) 12/31/13 - 3/31/14	Current Year(\$) 12/31/13 - 3/31/14	Last 12 Months(\$) 3/31/13 - 3/31/14	Last 3 Years(\$) 3/31/11 - 3/31/14	Since Inception(\$) 6/11/07 - 3/31/14
Total Beginning Value (includes accrued income)	12,234,459.31	12,195,452.36	12,195,452.36	11,923,291.65	11,810,002.19	10,356,907.69
Net Contributions/Withdrawals	0.00	0.00	0.00	(738,342.79)	(1,758,176.62)	175,007.37
Net Invested Capital	12,234,459.31	12,195,452.36	12,195,452.36	11,184,948.86	10,051,825.57	10,531,915.06
Net Portfolio Appreciation	94,073.83	133,080.78	133,080.78	1,143,584.28	2,276,707.57	1,796,618.08
Total Ending Value (includes accrued income)	12,328,533.14	12,328,533.14	12,328,533.14	12,328,533.14	12,328,533.14	12,328,533.14
Cumulative Total Account (TWR Net Return)	0.77	1.09	1.09	9.84		19.75
Annualized Total Account (TWR Net Return)					6.68	2.68

Comparative Performance Returns						
	Current Month(%) 02/28/14 - 03/31/14	Current Quarter(%) 12/31/13 - 3/31/14	Current Year(%) 12/31/13 - 3/31/14	Last 12 Months(%) 3/31/13 - 3/31/14	Last 3 Years(%) 3/31/11 - 3/31/14	Since Inception(%) 6/11/07 - 3/31/14
Total Account (TWR Gross Return)	0.78	1.23	1.23	10.44	7.24	3.23
HDMA Composite Index	0.28	1.12	1.12	10.51	7.37	5.00
SP 500	0.84	1.81	1.81	21.86	14.66	5.51
NASDAQ OTC Composite	-2.45	0.83	0.83	30.18	16.26	8.63
BC Govt Credit Intermediate	-0.30	1.00	1.00	-0.13	3.13	4.76
MSCI World	0.14	1.26	1.26	19.07	10.52	3.40
Russell Mid Cap Value	1.54	5.22	5.22	22.95	15.17	6.38

Performance for all periods greater than one year is annualized

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